Supporting the financial wellbeing of our members by providing a safe and good return on the savings they entrust with us and promoting home ownership.

Annual Report and Accounts

Year ended 31 March 2023

the West Brom

Contents

Key highlights of the 2022/23 financial year include:

£33.2m

member mutual benefit
(2021/22: £9.0m)

Savers were rewarded with rates almost **double the market average**[1].

Market first approach to SVR

Standard Variable Rate aligned for existing members to that of new mortgage customers, with a reduced rate for lower LTVs.

Five star service

Awarded the highest accolade in the Financial Adviser Service Awards for the fifth consecutive year.

New mortgage lending £691m

(2021/22: £756m)

With 67% of loans for house purchase supporting first-time buyers onto the property ladder (2021/22: 54%).

Borrowers saved £1,400

A borrower at the West Brom would save circa **£1,400**[2] a year for each £100,000 borrowed compared with an average market SVR of **7.12%**[3].

Common Equity Tier 1 (CET 1)

18.7%

Strong capital position maintained with an increased Common Equity Tier 1 (CET 1) capital ratio of **18.7%** (2021/22: 17.0%) and a Leverage Ratio of **7.9%** (2021/22: 7.3%).

Profit before tax

£31.8m

(2021/22: £23.2m)

On an underlying basis £21.2m (2021/22: £26.6m) after removing one off recoveries/ charges and hedge ineffectiveness.

95%

customer satisfaction
(2021/22: 96%)

Paired with an above average Net Promoter Score®[4] of **+74** (2021/22: +81).

Supporting refugees

Supporting refugees from the Ukrainian conflict by providing homes to **house families impacted by the crisis**.

Living Hours employer

Became the first building society in the UK and the first employer in the West Midlands to receive the accreditation.

1 Average market rates sourced from Bank of England Bankstats table A6.1 March 2023
2 Interest saving in first year by borrower with less than 75% Loan to Value
3 Average market revert rate sourced from Moneyfacts March 2023
4 Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Chair's Statement

> We've remained guided by our Purpose to help our customers achieve their hopes and ambitions of home ownership and save for a secure future.
>
> **- John Maltby, Chair**

Over the last year we have continued to see significant challenges in the external environment, with the war in Ukraine continuing, cost of living pressures rising and inflation at the highest we have seen in almost four decades. Despite this, we've remained guided by our Purpose to help our customers achieve their hopes and ambitions of home ownership and save for a secure future. This remains as important today as it was almost 175 years ago when the Society first built its foundations.

A Purpose-led strategy

As a Board, we are steadfast in delivering on our Purpose-led strategy. We are proud to be reporting such positive results this year and have committed to using our strong financial position to invest in our technology, people and processes to ensure we continue to meet the changing needs of our current and future customers.

Over the course of the year, we identified a number of opportunities to reinvigorate the principle of mutuality and deliver tangible value for our customers. We continue to focus on those 'core to our Purpose' including first-time buyers, mortgage prisoners and those excluded from mainstream lending due to a recent challenge in their lives. These achievements are celebrated in our inaugural Impact Report, to be published later this summer, a stand-alone document setting out the positive impact that the West Brom has on its members and the communities we serve.

Board and Executive Committee changes

Over the last year we have made some changes to our Board and Executive Committee.

After five years as Group Finance & Operations Director, Ashraf Piranie stepped down from the Board in December 2022. I'd like to thank Ashraf for his valued contributions and wish him well in his future career.

Alex Pawley joined the Board as Chief Financial Officer having joined the Society in 2016 and serving on our Executive Committee as Divisional Director of Treasury and Finance for the last three years.

Our changes to the Executive Committee were completed shortly after the financial year end. In April Martin Boyle joined the Society and the Board as Chief Operating Officer. Martin brings a wealth of transformation and operations experience following senior leadership positions at Metro Bank, Nationwide, Visa Europe and Accenture.

We also welcomed Alex Windle, Chief Customer Officer, to the Society and our Executive Committee. Alex has many years of experience in strategy, marketing and commercial functions from senior level roles at BP, LG Electronics, Vodafone and, most recently, The Cumberland Building Society.

Looking ahead

As we look ahead, we see further economic and social challenges and we understand the impact this could have on our customers, colleagues and communities. We will continue to help wherever possible to ease any burdens through our unwavering focus on our Purpose and living the values of mutuality to the benefit of our customers. We are committed to have an increasingly positive impact on the lives and prospects of our customers, our colleagues and the communities where we live and work.

On behalf of myself and the Board, I'd like to thank all our members for their ongoing support and loyalty and also our colleagues for their hard work and contribution this year. This support, together with our ongoing investment and the further strengthening of our leadership capability, positions us well for the challenges and opportunities ahead.

John Maltby
Chair
31 May 2023

> Over the last year, we've remained focused on ensuring our members enjoy real benefits of belonging to the West Brom.
>
> **- Jonathan Westhoff, Chief Executive Officer**

Chief Executive Officer's Review

It's great to report a strong performance as we continue to work through significant challenges in our external environment. Whilst our financial performance demonstrates our underlying strength and resilience, and helps us to drive forward on our Purpose-led agenda, perhaps most satisfaction comes from what we have delivered for our members, demonstrating the tangible benefits of being with a mutual that is true to its Purpose.

This value reflects our focus on not only ensuring we deliver great value through our products, but that we also innovate and take the lead on changing market practices that have historically either withheld value or put financial burdens on those least able to afford it. Collectively, these initiatives make a real impact.

Our Purpose-led activities

Over the last year, we've remained focused on ensuring our members enjoy the benefits of belonging to the West Brom, introducing a series of innovations, indeed sector firsts, that have delivered significant value.

During the period, we took action to support our borrowing members by becoming the first lender in the market to align our approach for existing members on our Standard Variable Rate (SVR) to that of new mortgage members. This new approach means that all owner occupier mortgage members reverting to SVR at the end of their product term will have their rate determined by their Loan to Value (LTV), with a lower rate for those with more equity in their property. Around 90% of owner occupier mortgage members on our SVR saw savings on their interest rates, with the majority seeing a reduction of 0.75%. This has provided real relief for our members at a time when mortgage costs are increasing. A borrower on SVR at the West Brom would save circa £1,400[2] a year for each £100,000 borrowed compared with an average market SVR of 7.12%[3].

Market first approach to SVR

Standard Variable Rate aligned for existing members to that of new mortgage customers, with a reduced rate for lower LTVs.

Borrowers saved £1,400[2]

Reduced the impact of rising rates for mortgage members on our SVR.

Working with our partners we have also innovated by having standard charging structures amended to return value. The new commission structure combined with a profit share arrangement that is distributed back to our policy holders means that members taking their home and contents insurance through the West Brom benefitted, on average, with a circa 8% reduction in their insurance premiums.

For our savers, who this year have helped 3,413 members buy their first home, we have continued to provide 'best buy' fixed savings rates and responded to the increase in interest rates led by the Bank of England Bank Rate, with improved variable saving rates so that they were almost double the average rates paid by the market[1]. This means we saw the savings member mutual benefit increase from £9.0m to £33.2m this financial year. We have also gone above and beyond our statutory duties by individually notifying members of any material rate increases to their savings rates to ensure that their product remains appropriate. For those members that wish to benefit from investing with the advantage of independent financial advice, through our partnership with Wren Sterling, we have again negotiated a changed commission structure, which results in a reduction of circa 25% to their ongoing service (annual) charge. On the average investment this is a benefit of £180 per year per investor.

£33.2m

member mutual benefit (2021/22: £9.0m)

Savers were rewarded with rates almost double the market average[1].

And finally, to support those borrowers who find themselves in financial difficulty and are not able to meet their payments we no longer charge any additional fees, more commonly referred to as 'arrears fees', to cover internal costs.

Providing a range of channels for our members is important to us and we have invested heavily in technology throughout the year. In December, we launched a new savings portal for our branch and direct members, giving them more immediate access to their accounts. This is not about moving everything online, but instead giving our members a choice of channels to suit their individual needs, and forms part of a wider technology transformation programme.

[1] Average market rates sourced from Bank of England Bankstats table A6.1 March 2023
[2] Interest saving in first year by borrower with less than 75% Loan to Value
[3] Average market revert rate sourced from Moneyfacts March 2023

> We've raised over £10,000 for our charity partner, Barnardo's, this year.

We've also been working towards the new Consumer Duty regulation that comes into force in July 2023. As a mutual, we've always had a focus on delivering good member outcomes but we believe this is a step in the right direction in terms of holding all firms to a minimum standard, leading to improved practices across the sector. For us Consumer Duty is another opportunity to listen to our members, learn from others and evolve in line with member expectations so that we can continue to serve them and our communities.

Building on our financial strength

Our strong financial performance this year demonstrates the underlying strength and resilience of the Society and helps us to drive forward on our Purpose-led agenda, supporting those underserved and/or overcharged by the market.

We have delivered a strong performance this year, with statutory profit before tax ending the year at £31.8m (2021/22: £23.2m), supported by strong net interest income, fair value gains on financial instruments and recovery of previously written off costs. On an underlying basis, after excluding hedge ineffectiveness and the one-off cost recovery, underlying profit reduced to £21.2m (2021/22: £26.6m). Charges for expected credit losses have increased in the current year, focused on the remaining legacy Commercial Real Estate exposures which are more susceptible to uncertainty in the macroeconomic environment. This performance is discussed further in the Strategic Review section of these Accounts.

£31.8m ↑

Profit before tax (2021/22: £23.2m).

Our profitability and management of risk contributes to our overall financial resilience and strengthens the Society's capital position. Our Common Equity Tier 1 (CET 1) capital ratio, a key measure of capital, ended the year at 18.7% (2021/22: 17.0%).

18.7% ↑

Common Equity Tier 1 capital ratio (2021/22: 17.0%).

Supporting our colleagues and communities

The drive and determination of our colleagues to serve our members is second to none and they've made the West Brom the thriving, Purpose-led organisation it is today.

We know that the economic pressures are likely to impact our colleagues as well as our members therefore we've continued to support them throughout the year. Across the winter months, over 70% of our colleagues benefitted from one-off support payments totalling £1,200. This sits alongside our Financial Hardship Support Fund, which exists to offer colleagues help in the event of a sudden, unexpected financial burden.

We were also proud to be recognised as a Living Hours employer this year – the first building society in the country and the first employer in the West Midlands to achieve this standard. The Living Hours standard requires employers to pay a real Living Wage and provide colleagues with the security and stability of hours they require to meet their everyday needs. This builds on our existing real Living Wage accreditation and recognises the work we do to ensure all colleagues are paid a wage they can live on.

Living Hours employer

Became the first building society in the UK and the first employer in the West Midlands to receive the accreditation.

Supporting refugees

Supporting refugees from the Ukrainian conflict by providing homes to **house families impacted by the crisis**.

Despite the backdrop of a highly competitive labour market, our belief in attracting and retaining a broad range of individuals has remained unchanged to ensure that we benefit from the best talent. Our equity, diversity and inclusion (ED&I) work continues and is essential to bringing richness of thought, resulting in a more successful business. Through Connect, our colleague network, we've forged partnerships with a number of organisations to support our work in this area, including Penn Hall School in Wolverhampton and Queen Alexandra College in Birmingham.

We remain committed to investing in the communities in which we operate and have showed our support in a variety of ways. We have raised over £10,000 for our charity partner, Barnardo's, this year and have backed various appeals by the Disasters Emergency Committee through our branch network. In addition, we continue to provide grant funding to local worthy causes through the Mercian Community Trust.

Last year, we also provided 11 properties from our rental portfolio and accommodation above our branches for the Homes for Ukraine scheme. To date, we have housed 23 refugees and are geared up to provide employment support where needed.

Outlook

Living costs look set to remain elevated for some time to come, maintaining the pressure on households and businesses alike. We will continue to use our financial strength responsibly to support our members, colleagues and communities through these challenging times, helping people to stay in their homes and save for the future where possible.

Recent years have built a significant momentum, not measured by our size or profitability, but by the true value we deliver to our members, and I look forward to working with my new and existing colleagues to deliver even more Purpose-led innovations as we approach 175 years of mutuality at the West Brom.

Jonathan Westhoff
Chief Executive Officer
31 May 2023

An overview of our strategy and our financial and non-financial performance in 2022/23.

Strategic Report

Our strategy

Our strategy continues to focus on the delivery of our Purpose – *to support the financial wellbeing of our members by providing a safe and good return on the savings they entrust with us and promote home ownership.*

Our focus on home ownership means our lending is concentrated on first-time buyers with 67% (2021/22: 54%) of loans for house purchase going to those buying their first home and our lending strategy is, and will increasingly be, concentrated on assisting existing and potential homeowners who are excluded or overcharged by other lenders.

Our savings strategy has focused on providing a strong return for existing savers and offering market leading rates for term deposits where savers commit to save with the Society for a longer period of time, (up to 5 years) allowing us to use these funds to promote home ownership.

Our commitment to modern mutual values means we strive to do the right thing by our customers in support of their financial wellbeing – be this through:

- breaking the accepted model of a single reversion rate for all borrowers through the introduction of our differentiated SVR;
- not charging those in payment difficulties (arrears) for our internal costs of helping them; or
- reducing the cost of insurance and financial advice provided through partners by cutting the commission that the Society takes and passing this back to customers.

As a modern mutual our commitment to do the right thing extends beyond our members but to our wider communities as demonstrated by, for example:

- our partnership with Barnardo's, seeking to establish four 'Gap Homes' for young vulnerable people leaving the care system in the Black Country area, which is now dependent only on local authority support;
- providing 11 properties from our rental portfolio and accommodation above our branches for the Homes for Ukraine scheme; or
- raising funds for our charity partner, Barnardo's as well as backing appeals by the Disasters Emergency Committee and raising funds for donations to foodbanks.

Our first "Impact Report" will be published later this summer, detailing those initiatives where we have demonstrated this commitment to modern mutuality – taking real action which has put pounds back in our members' pockets, supporting our communities and focusing on our impact on the environment.

The Society continues to invest in order to deliver on our Purpose and over the next 12 months we will be reviewing the IT system and architecture priorities for the Society to ensure that we continue to meet the emerging needs of future and current members across both mortgage and savings offerings.

This review follows the decision not to progress with the development of a new savings platform at this time and the successful recovery of £5.6m of costs which had previously been written off. However, during the year the Society has adopted an alternative strategic approach with the launch of a first stage online savings portal, to which services will be incrementally added to deliver the prime objective of the initial savings platform project, without the requirement for any material changes to our existing savings platform.

As well as our core saving and lending activities, the Society holds, via its property investment subsidiary West Bromwich Homes Limited (WBHL), a portfolio of residential properties. These generate rental income and provide quality homes for those in the rented sector at an affordable rent. The average rent is currently up to 10% lower than the market rent charged for new tenants over time[6]. The target is to charge around 5% below market rent.

Our ability to offer high quality products and services continues to be supported by the effective management and reduction of non-core lending. Since 2009, the Society has been managing down these exposures to achieve the most favourable economic outcome on behalf of members.

[6] Internal analysis of market rent information from Lettings Agents and the Society's rent charged as at December 2022

Our business model

The Society's business model is aligned to its Purpose and strategic objectives. The diagram below sets out the aspects of the business model which are key to this Purpose.

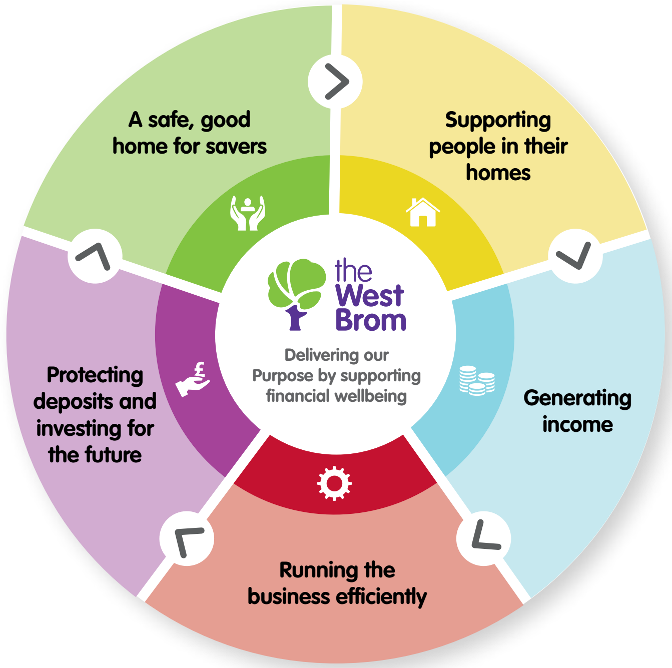
Our Funding:

The vast majority of our funding comes from our retail savers, supported by funding from wholesale markets.

- Savers deposits
- Wholesale funding

Our Profits:

Our profits, the difference between our income and expenses, is used to support our capital position - which provides a buffer in case of losses from future shocks or stresses - and to invest in our systems which enable us to continue to provide excellent service to both our current and future membership.



Our Lending:

Our funding is used to support our lending purposes. In line with our Purpose, our lending is focused on supporting home ownership with a greater than market average proportion to first-time buyers and products designed to provide greater access to the mortgage market, thus supporting home ownership.

- Lending for home ownership
- Lending to support the private rented sector
- Lending to legacy positions

Our Income:

We generate income through the difference in the rates we charge to borrowers and commission from savers, the sale of selected third party financial products and our role as a responsible landlord.

- Net interest margin
- Other income
- Role as a responsible landlord

Our Costs: We use our income to run the business efficiently, paying our people, our suppliers, maintaining our branch network and Head Office. We also provide for any losses and pay our taxes.

- Our people, property and equipment
- Our suppliers
- Provisions for bad debts
- Taxes

To support our business model the Group is organised into three main business segments, this allows the Society to focus its strategic intent on the delivery of its Purpose whilst maintaining a concentrated effort to manage the orderly run-off of non-core activity.

Retail - savings, mortgage, investment and insurance products offered either directly or by third party partnerships through our 34 branches, customer services teams and online, with new mortgage lending also delivered through our intermediary partners.

Property - a portfolio of residential properties held to generate rental income. The Group recognises its role as a responsible landlord with the portfolio actively managed by a well-respected property management company. The Board acknowledges the inherently fluctuating nature of revaluation gains/losses associated with the portfolio to both the benefit and detriment of the Group's financial performance. The Board continues to manage the portfolio economically in the long-term interests of the membership.

Commercial real estate - the historic provision of finance for commercial real estate investment which is deemed strategically as non-core.

The above business segments are supported by central functions providing Finance, HR, IT, Compliance and Risk Management.

Funding is reviewed at a Group-wide level with Treasury and Finance functions managing day-to-day cash flow, along with providing wholesale funding and ensuring allocation of capital and liquidity.

Our Strategic Framework

Our Strategic Framework helps support and guide the delivery of our Purpose to members.

Our Purpose

Support the financial wellbeing of our members by providing a safe and good return on their savings they entrust with us and promote home ownership.

Our Strategic Intent

Customer	Safe & Responsible	Efficient	Future Ready	Colleagues
'Developing products & services that support the principles of our Customer Proposition - individual, ease and trust'.	*'Understanding the risks we take and making responsible decisions that generate sustainable levels of retained profit'.*	*'Driving efficiencies in our processes and structures to improve the customer experience and level of member value'.*	*'Investing in and delivering the change required to meet the needs of current and future members'.*	*'Investing in the development of our colleagues and creating a diverse and inclusive working environment to improve our organisational capability'.*

How we are progressing

Across the year we have made good progress against our five statements of strategic intent, just some of this progress is detailed below:

Customer

- Welcomed 6,007 new borrowers, including 3,413 first-time home owners, and 7,046 new savers to the Society.
- Extended £691m in new residential lending, with 67% of loans for home purchases to support first-time buyers onto the property ladder (2021/22: 54%).
- Rewarded savers with rates that were, by the end of the year, almost double the average rates paid by the market[1], equivalent to a member mutual benefit of £33.2m, more than three times higher than the prior year benefit of £9.0m.
- In a market first, we aligned our approach for existing customers on our SVR to that of new mortgage customers, with a lower rate for borrowers with a greater proportion of equity in their homes. Around 90% of owner occupier mortgage customers experienced savings on their interest rates, with the majority seeing a reduction of 0.75% at the time of introduction.
- This means an SVR borrower at the West Brom would save circa £1,400[2] a year for each £100,000 borrowed compared with an average market SVR of 7.12%[3].
- Increased rates paid to savings members, including loyalty fixed savings rates for existing customers; resulting in an increase in fixed rate savings balances of 29%.
- A NPS®[4] of +74 (2021/22: +81) with customer satisfaction maintained at 95% (2021/22: 96%). The movement in the NPS was anticipated following the move towards email surveys compared to previously used Interactive Voice Response (IVR) surveys. One result of this was higher response levels particularly against certain customer touch points where NPS scores are typically lower.
- Awarded, for the fifth year in a row, a top five star rating in the Financial Adviser Service Awards for the exceptional service we provide to our valued intermediary partners.
- Shortlisted in four categories of the Moneyfacts 2022 awards including Best Building Society Mortgage Provider, Best First-Time Buyer Mortgage Provider, Best Variable Rate Mortgage Provider and Best Building Society Savings Provider. These nominations recognise the work we do to ensure our products meet the needs of both new and existing customers.
- Held a further three meetings of our Member Council providing valued input to Board decision making with discussion topics including Environmental, Social and Governance (ESG) matters, Executive Director Remuneration and Risk Management.

Safe & Responsible

- Significantly increased our financial strength with a CET 1 capital ratio of 18.7% (2021/22: 17.0%) providing even greater resilience to potential stresses in the future.
- Delivered improved statutory profit before tax of £31.8m (2021/22: £23.2m). On an underlying basis, profit reduced to £21.2m (2021/22: £26.6m) largely as a result of higher commercial provision charges.
- Provided £24.1m (2021/22: £8.1m) in respect of Expected Credit Losses (ECL) across our residential and commercial lending portfolios which includes a charge of £3.0m against the residential portfolio (2021/22: release of £4.4m) and a commercial impairment charge of £21.1m (2021/22: £12.5m). After adjusting for the offsetting movements in derivatives held to hedge the impact of changes in interest rates the net charges were £18.0m and £5.6m for the current and prior year respectively.

[1] Average market rates sourced from Bank of England Bankstats table A6.1 March 2023
[2] Interest saving in first year by borrower with less than 75% Loan to Value
[3] Average market revert rate sourced from Moneyfacts March 2023
[4] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

- Reduced the residual commercial exposure by 33% during 2022/23 with a net exposure of less than one fifth of the peak in 2008/2009.
- Maintained arrears rates at levels well below industry averages with core residential arrears of 0.52% (UK Finance: 0.71%)[5] at 31 March 2023. The increase in arrears percentage reflects increasing arrears volumes as expected in the current economic climate combined with a reducing book, particularly the buy to let portfolio.
- Raised close to £10,000 to be used to support food banks across the Black Country which includes regular salary deduction contributions from our Executive Committee members. This sits alongside other volunteering and fundraising activities and our partnerships such as that with Barnardo's which is being used to deliver four 'Gap Homes' across the region.

Efficient

- Our management expense ratio decreased to 0.78% (2021/22: 0.89%). This included the benefit of the net recovery of £5.6m of costs in relation to the digital savings platform written off in the previous year. Excluding this impact, the management expenses ratio was 0.87% (2021/22: 0.84%).
- We are committed to cost optimisation where our cost structures remain aligned with our strategy. This allows us to target expenditure in those areas where investment is needed to meet the expectations of current and future members and remain operationally resilient while seeking cost reductions in other areas.

Future Ready

- Continued to progress our IT strategy to support both members and colleagues, including enhancements to our IT applications (product development agility in Mortgages) and infrastructure improvements to ensure the Society can adapt to the rapid advances in technology while remaining cost efficient and operationally resilient.
- Committed to reducing our carbon footprint by setting ambitious environmental targets across our physical estate.

Colleagues

- New partnership developed with Management Training Specialists (MTD Training) to deliver solutions for our leadership development needs, which include the following:
    - Launched a 'new manager' development journey in January 2023, which reflects 'leadership in the new world';
    - Developing a Society wide leadership programme to redefine expectations for existing managers including customer thinking, resilience and supporting them to manage hybrid teams; and
    - Support with more localised development needs to achieve a proactive approach to development at the Society.
- Made clear our commitment on Equity, Diversity and Inclusion (EDI), including the following highlights:
    - Maintained 40% female Board representation, continuing to exceed the target of 30% which we made as part of our commitment to the Women in Finance Charter. We are also making good progress with female representation at senior management levels including senior specialist roles, which by the end of March 2023 was at 38%, against our revised target of 40% to be achieved by the end of 2024;
    - The Society's Disability Confident Leader status continued to recognise our ongoing commitment to raise awareness, promote a culture of disability confidence, record and report on disability, mental health and wellbeing. We actively worked with local schools and colleges to provide students with disabilities valuable 'on the job' experience with the opportunity to work with West Brom colleagues and gain a better understanding of the workplace;
    - Published our sixth annual Gender Pay Gap report and second annual Ethnicity Pay Gap report, being one of the few companies both in financial services and the wider industry to voluntarily do so; and
    - Our EDI group, 'Connect', continued to play a key role in raising awareness and strengthening the environment where embracing different cultures and colleagues from all backgrounds and diversities are encouraged and celebrated.
- Provided our colleagues on salaries under £35,000 with additional monthly payments of £300 across the challenging winter months (October – January), totalling £1,200. A Hardship Fund has also been established; the aim of this was to support colleagues where finances might be 'stretched' through an unexpected one-off financial shock.
- The Society was recognised as the first building society in the country and the first employer in the West Midlands to achieve the new Living Hours Employer standard set by the Living Wage foundation, which builds on the Society's existing real Living Wage accreditation, to provide colleagues with the security and stability of hours they require to meet their everyday needs.
- Held three meetings of our Employee Council which provides valued input to Board decision making, including on topics such as ESG matters, risk management and remuneration.
- Supported 17 colleagues who are undertaking Apprenticeships ranging from Level 3 (A Level) to Level 7 (Master's Degree) qualifications in disciplines such as Learning and Development, Business Administration, Business Analysis, Internal Audit, Cyber Security, DevOps Engineering, Digital Technology Solutions, Network Engineering and Senior Leadership.
- Continued to build on the success of hybrid working for all roles, with the exception of the branch network, under the overarching principle of 'what is best for the customer is paramount'.

[5] UK Finance is a trade association for the UK banking and financial services sector

Key performance indicators

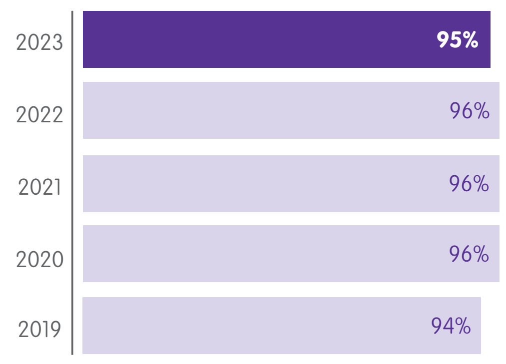
The Society monitors and assesses its performance against strategic objectives using a range of financial and non-financial key performance indicators (KPIs). The Society's KPIs are selected to support the Society's strategic pillars which are listed within the Business Model section of the Strategic Report. These KPIs, and the Society's performance against each, are described below. KPIs for our Future Ready pillar are currently only used internally to measure performance against the application of digital technology.

Customer satisfaction (Customer)

95%

Measure
Following a branch visit or call to our Customer Service department, members are asked to rate us across a number of different measures, including how easy they found the West Brom to deal with. A customer satisfaction score is subsequently captured.

2023 analysis
Customer satisfaction remains high reflecting our customer centric approach.

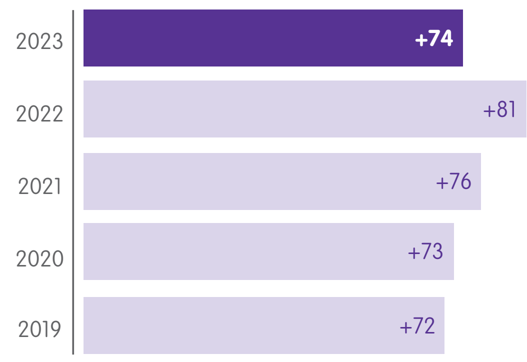


Net Promoter Score® (NPS®)[4] – customer satisfaction (Customer)

+74

Measure
A measure of how likely a customer is to recommend the West Brom's products and services. The NPS ranges between -100 and +100. During 2022 we moved towards using email surveys compared to previously used Interactive Voice Response surveys.

2023 analysis
NPS remains well above average at +74 (2021/22: +81). The movement in NPS was anticipated as we moved towards using a new methodology during the year. One result of this was higher response levels particularly against certain customer touch points where NPS scores are typically lower.



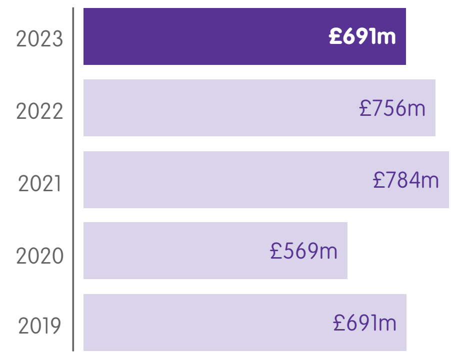
Gross residential lending (Customer)

£691m

Measure
Delivering the Society's core Purpose of home ownership, this is the value of residential lending advanced this year.

2023 analysis
Gross residential lending, at £691m, saw a decrease of 9% compared to the prior year reflecting a reduction in market activity in the second half of the year.

We remain committed to delivering our Purpose that supports responsible lending and delivers an appropriate level of return from our diverse product range.



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

Key performance indicators (continued)

Net owner occupied lending (Customer)

(£117m)

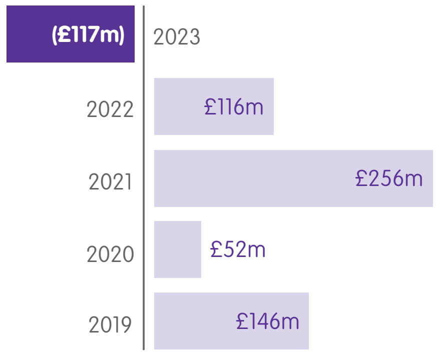
Measure

Gross residential owner occupied lending less repayments of principal and redemptions. This includes all owner occupied lending, including non-traditional elements (e.g. Shared ownership, Help to Buy and Assisted mortgages) and excludes buy to let lending.

This measure reflects growth in the owner occupied lending book and reflects both new lending and customer retention.

2023 analysis

Since re-entering the owner occupied residential lending market in 2012, the lending balances in this area have grown by 133%. The fall in net lending reflects higher levels of capital repayments seen across the market, as borrowers looked to reduce debt in the rising interest rate environment, and a lower level of gross lending reflecting a weaker purchase market.



Savings member mutual benefit (Customer)

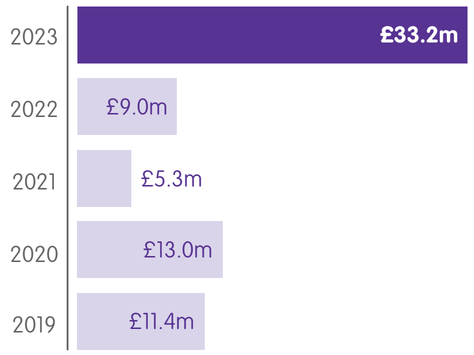
£33.2m

Measure

The Society's average savings rate above the rest of the market is paid in mutual benefit to our savings members.

2023 analysis

We paid our savers almost double (2021/22: more than three times) the market average[1], enabling the Society to deliver £33.2m in mutual benefit to our members.



Common Equity Tier 1 (CET 1) ratio (Safe & Responsible)

18.7%

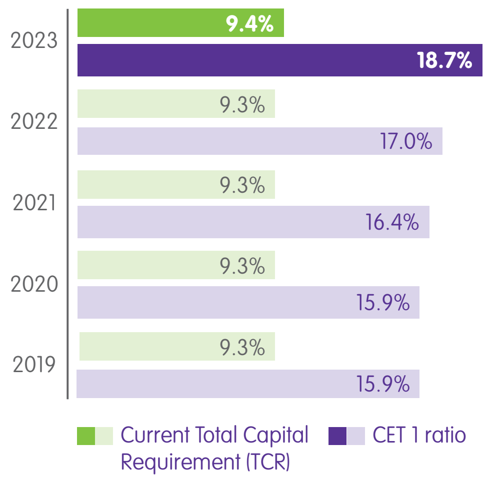
Measure

CET 1 capital is the highest quality form of capital for a financial institution, comprising retained earnings, other reserves and qualifying CET 1 capital instruments.

The CET 1 ratio, calculated as CET 1 capital divided by risk-weighted assets, is a measure of financial strength and is required to be maintained above a regulatory threshold.

2023 analysis

CET 1 capital further strengthened this year due to improved profit generation and a reduction in risk-weighted assets. The CET 1 ratio was comfortably maintained at levels in excess of our regulatory Total Capital Requirement (TCR) throughout the year.



Underlying profit before tax (Safe & Responsible)

£21.2m

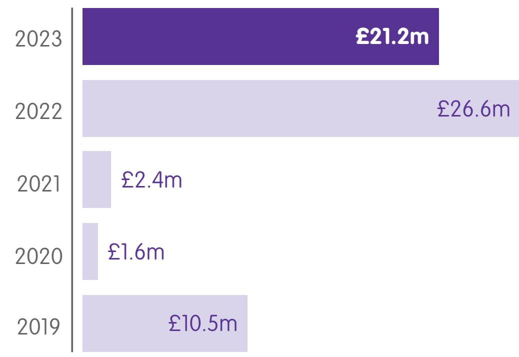
Measure

Profit contributes to capital which provides financial resilience and facilitates future growth and investment.

Underlying profit before tax excludes the impact of hedge ineffectiveness and the write off/ recovery of costs in relation to the project to implement a digital savings platform. A reconciliation of statutory to underlying profit is presented on page 18.

2023 analysis

Whilst underlying profitability has remained high in comparison to recent history, this did fall from the previous year, as a result of higher provisioning costs in the legacy commercial lending portfolio which increased from £5.6m to £18.0m in 2022/23.



Net interest margin (Safe & Responsible)

1.42%

Measure

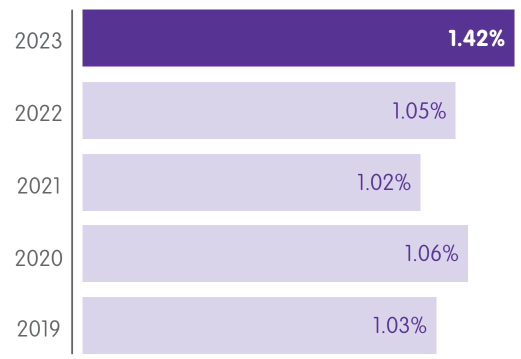
Net interest margin is calculated as net interest income expressed as a percentage of mean total assets.

The drivers of this measure are the level of return received from mortgages and the interest paid to savers.

2023 analysis

Net interest margin improved significantly in the year. This was largely driven by rising interest rates and the timing benefit we experience from hedging our fixed rate mortgages. This means we receive the benefits of Bank Rate increases faster than we are able to pass on increases to savers.

As a mutual, it is not our objective to maximise margin but to manage interest income at a level that covers costs, enables investment in the future and maintains a strong capital position.



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

Key performance indicators (continued)

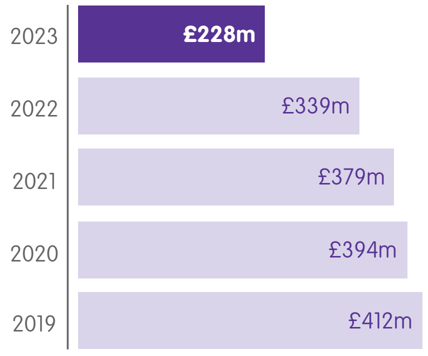
On Balance Sheet CRE Exposures (Safe & Responsible)

£228m ↓

Measure
Exiting the commercial real estate sector has been a longstanding strategy of the Board and is measured by the reduction in the gross carrying value of non-core commercial gross exposures, which totalled £1.7bn in 2008/09.

2023 analysis
Non-core commercial mortgage balances have continued to reduce annually, down 33% in the year to £234m at 31 March 2023.

Of the remaining exposure, £6m is securitised thereby transferring the residual risk out of the Group.



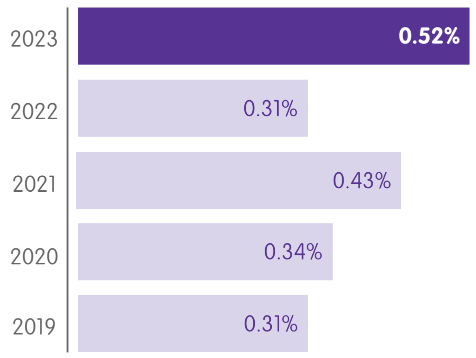
Core residential arrears (Safe & Responsible)

0.52% ↑

Measure
The internal measure, reported to the Board, is the number of cases where the borrower has missed more than three monthly payments, as a proportion of the total number of loans.

2023 analysis
Core residential arrears increased from the prior year and stood at 0.52% at 31 March, which compares favourably against the published UK Finance average[5] of 0.71%.

The ongoing cost of living challenges are contributing to this position with an increase being observed across both the owner occupied and buy to let portfolios. Although the ratio has increased, the number of arrears cases has remained relatively low.

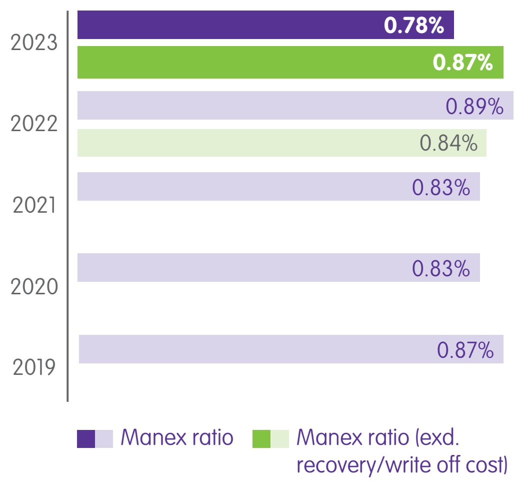


Cost efficiency (Efficient)

0.78% ↓

Measure
The management expense ratio is a measure of cost efficiency, reflecting costs (including depreciation and amortisation) as a percentage of mean total assets.

2023 analysis
The management expense ratio reduced to 0.78% (2021/22: 0.89%). This includes the impact of the net recovery of £5.6m of costs previously written off. Excluding this, management expenses was 0.87%, due to inflationary pressures.

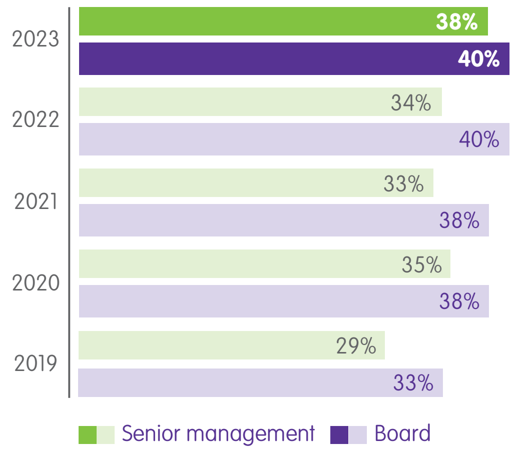


Female representation (Colleagues)

38%, 40% ↑

Measure
The Society is a signatory to the Women in Finance Charter and has targets to maintain female representation of at least 30% on the Board and in senior management. Building on this continued success, we announced a revised target for our senior management population to achieve 40% female representation by the end of 2024.

2023 analysis
The 30% target for female representation continues to be exceeded at both Board and senior management levels. Strong progress has been made towards achievement of the revised target for our senior management population.

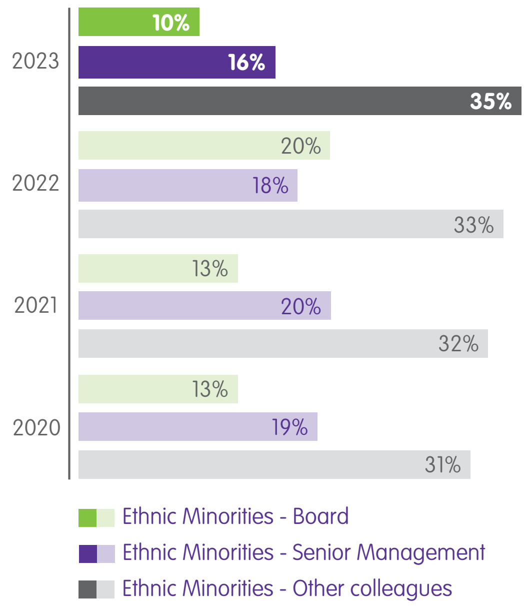


Ethnic representation (Colleagues)

10%, 16%, 35% ↓

Measure
The Society is a signatory of the Race at Work Charter and during 2022 published the Society's first Ethnicity Pay Gap report, one of the few companies in financial services to do so, to achieve better transparency and drive the diversity agenda. In 2021, the Society began reporting ethnic representation across the colleague base and management group.

2023 analysis
With the Society's heartland being located in one of the most ethnically diverse regions in the UK, having 35% of the Society's colleagues from ethnic minority backgrounds in our customer teams helps us reflect the richly diverse communities we serve. Although previously in a strong position, representation at Board and Senior Management levels has fallen slightly behind, and whilst these groups are of relatively small populations, this is an area of focus where we are looking to improve.



[5] UK Finance is a trade association for the UK banking and financial services sector

Financial review

Financial performance

Summary income statement

Year to 31 March Income statement overview

	Group 2023 £m	Group 2022 £m
Net interest income	**83.2**	62.1
Fees, commissions and other income	**5.8**	5.6
Fair value gains on financial instruments*	**6.6**	10.6
Total income	**95.6**	78.3
Management expenses	**(45.7)**	(52.9)
Operating profit	**49.9**	25.4
Gains on investment properties	**6.0**	5.8
Impairment on loans and advances	**(24.1)**	(8.1)
Provisions for liabilities	**-**	0.1
Profit before tax	**31.8**	23.2
Taxation	**(5.6)**	1.2
Profit for the financial year	**26.2**	24.4

**Fair value losses include fair value losses on derivatives used to hedge commercial loans of £3.1m (2021/22: £6.9m), included within the amounts presented in note 5 to the accounts.*

A strong performance in the year saw statutory profit before tax increase to levels not seen since before the credit crunch, ending the year at £31.8m (2021/22: £23.2m). The Group's operating profit, which shows profit before impairments, almost doubled to £49.9m supported by strong net interest income, fair value gains on financial instruments and the recovery of previously written off costs. On an underlying basis, after excluding hedge ineffectiveness and the one-off cost recovery, profit reduced to £21.2m (2021/22: £26.6m)

Charges for Expected Credit Losses (ECL) have increased in the current year, focused on the remaining legacy Commercial Real Estate exposures which are more susceptible to uncertainty in the macroeconomic environment. For residential lending, updated macroeconomics anticipate house price falls and expected increases in arrears as a result of the ongoing cost of living crisis, giving rise to an increase in modelled provisions. The legacy commercial portfolio continues to contract due to natural redemption activity and ongoing proactive management of exit strategies for accounts in default.

Despite the current uncertainty in the housing market, strong growth in the first half of the financial year has contributed to a gain on our investment property portfolio of £6.0m (2021/22: £5.8m). Included within the valuation gains are overlay adjustments to reflect uncertainty in respect of the housing market.

A year on year comparison of underlying profit before tax is presented below:

Year to 31 March Reconciliation of statutory to underlying profit before tax

	2023 £m	2022 £m
Statutory profit before tax	**31.8**	23.2
Hedge ineffectiveness	**(5.0)**	(2.2)
(Recovery)/ write off of previously capitalised costs	**(5.6)**	5.6
Underlying profit before tax	**21.2**	26.6

Net interest income

Net interest income increased in the year to £83.2m (2021/22: £62.1m), with an improved net interest margin of 1.42% (2021/22: 1.05%). Higher interest income predominantly reflects net receipts on interest rate swaps which are put in place to protect the Society in the event of rising interest rates, and Bank Rate tracker mortgages. The vast majority of borrowers, however, are protected by being on fixed rate deals.

This improved net interest income was after increasing our savings rates across the year as the Society remained committed to supporting its members by continuing to pay rates above the market average. For the 12 months to 31 March 2023, we significantly increased the amount paid to our savings members in comparison to the market average (0.79% above the market average[1], 31 March 2022: 0.21%). This represents a considerable £33.2m provided in mutual benefit to savers, more than three times the amount in the previous year (2021/22: £9.0m).

Fair value gains on financial instruments

The Society is exposed to income statement volatility through changes in the fair value of financial assets and liabilities which are held at fair value through profit or loss (FVTPL), predominantly interest rate swaps which are taken out to protect net interest income from volatility in market interest rates. The gains in the year reflect the effectiveness of this strategy as we saw the largest year on year increase in Bank Rate since 1989.

The fair value movements on derivative financial instruments, used purely for risk management purposes, are offset in the Income Statement but only where the conditions for applying hedge accounting are met.

Of the £6.6m fair value gains (2021/22: £10.6m gains) in the year:

- £3.1m gains (2021/22: £6.9m gains) represents fair value movements on derivatives held to provide an economic hedge against movements in impaired commercial provisions for which the criteria to apply hedge accounting are not met. The volatility arises from changes in the market view of interest rates and is largely offset within impairment on commercial loans and advances because of the impact of discounting future cashflows at market rates. For example, where interest rates increase, ECL will increase owing to greater discounting of future cashflows;
- £3.4m gains (2021/22: £3.5m gains) relates to the element of ineffectiveness in the hedge relationships which still meet hedge accounting criteria and the fair value movements on interest rate swaps held to hedge the Society's mortgage pipeline, before an effective hedge relationship can be established; and
- £0.5m loss (2021/22: £0.2m gains) arises on the closed equity release portfolio reflecting the impact of house price movements on the portfolio.

Management expenses

Management expenses have reduced significantly from £52.9m to £45.7m in the current year reflecting the benefit from the net recovery of £5.6m of previously written off costs in relation to the development of a new savings platform (2021/22: write off of £5.6m). Excluding the impact of the costs and related recovery, management expenses were £51.3m (2021/22: £47.3m) reflecting the ongoing impact of high inflation.

Gains on investment properties

The Society provides residential housing for rent through its subsidiary company, West Bromwich Homes Limited. The portfolio includes properties across England and Wales, with substantial investments concentrated in the West Midlands, the South West and South Wales.

House price inflation continued in the first half of the year, flattening towards the end of the year. This saw the market value of the properties held rise by £6.0m compared with £5.8m in the previous year. Included in this gain is an overlay adjustment to reflect uncertainty in the housing market.

Impairment on loans and advances

The table below analyses the impairment charges on loans and advances in the year:

Year to 31 March Impairment on loans and advances

	2023 £m	2022 £m
Residential loans	**3.0**	(4.4)
Commercial	**21.1**	12.5
Total impairment	**24.1**	8.1
Fair value movement on derivatives held to hedge impaired commercial loans	**(3.1)**	(6.9)
Total impairment and related charges	**21.0**	1.2

Residential impairment

Impairment charges on the residential loan portfolio are based on ECL calculations which take into account the credit risk of the loans and assumptions of future economic scenarios in line with IFRS 9 requirements.

The residential impairment charge for the year was £3.0m (2021/22: £4.4m credit). We have not yet materially seen the impacts of higher borrowing or living costs on mortgage holders (in part as the majority continue to be protected by fixed rates) which would see an increase in modelled provisions. However, we have used a number of overlays to cover heightened affordability risk as well as the potential impact of combustible materials in flats and the potential overstatement of house price inflation in recent years. These overlays are the reason for the higher residential provision charge in the current year. Further detail is provided in note 1 to the accounts.

Group arrears at 0.52% (31 March 2022: 0.31%) have increased reflecting the current economic climate. This continues to compare favourably against the UK Finance average of 0.71%[5] (2022: 0.77%).

Commercial impairment

Commercial impairment charges increased in the year to £21.1m from £12.5m in 2021/22. After adjusting for the offsetting movements in derivatives held to hedge the impact of changes in interest rates the net charges were £18.0m and £5.6m for the current and prior year respectively.

The commercial property sector remains exposed to changes in the wider economic climate and we continue to make appropriate provisions against our exposures, resulting in commercial provision balances of £79.2m (2021/22: £99.9m), which represents 33.8% of the current loan book (2021/22: 28.7%).

The majority of the Group's commercial portfolio comprises loans to the retail sector. Provision coverage against loans to the retail sector has increased to circa 40.4% from circa 39.6% prior to the onset of the pandemic. Note 33(c)(iii) to the accounts further analyses the commercial portfolio by industry type.

All commercial lending was originated at least 15 years ago and we continue to manage the exit from this sector with a reduction in gross exposures of 33% in the year (2021/22: 12%).

Taxation

There is a corporation tax charge of £5.6m for the year (2021/22: £1.2m credit). This is as a result of utilisation of brought forward tax losses and the recognition of deferred tax assets, based on amounts expected to be recoverable against future taxable profits. The effective tax rate is 17.6% compared to a UK rate of 19%. In the prior year an increase deferred tax asset was recognised with respect to carried forward losses and timing differences after future increases in tax rates were announced.

Further analysis of the tax charge is given in note 9 to the accounts.

[1] Average market rates sourced from Bank of England Bankstats table A6.1 March 2023

[5] UK Finance is a trade association for the UK banking and financial services sector

Financial position

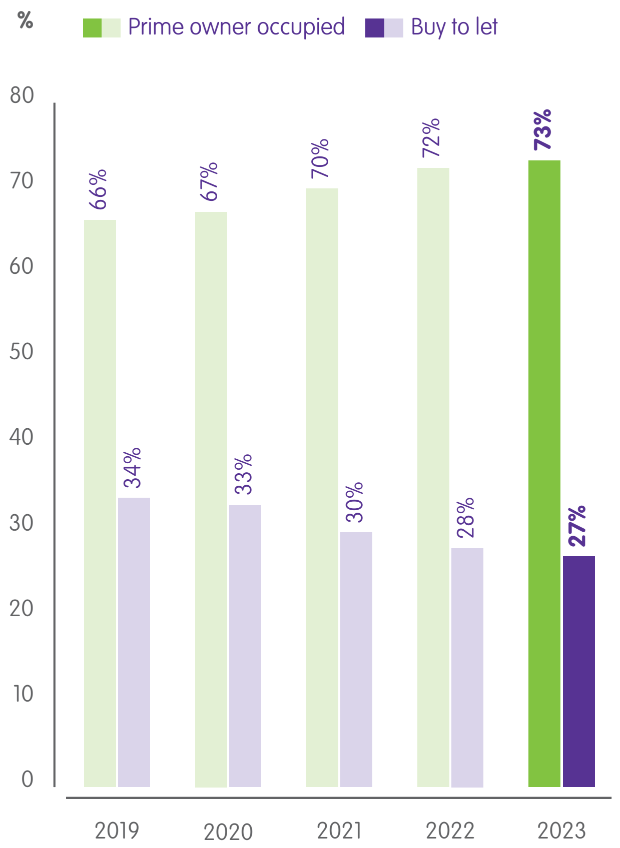
Summary statement of financial position

At 31 March

	Group 2023 £m	Group 2022 £m
Assets		
Residential loans and advances	4,215.2	4,529.7
Commercial loans and advances	155.1	248.6
Liquid assets	986.6	1,012.1
Derivative financial instruments	100.5	52.4
Fixed and other assets	231.9	224.5
Total assets	5,689.3	6,067.3
Liabilities		
Shares	4,306.3	4,183.6
Wholesale funding	883.1	1,395.4
Derivative financial instruments	6.7	11.5
Other liabilities	62.8	59.5
Total liabilities	5,258.9	5,650.0
Equity		
General reserves	292.3	279.1
Other equity instruments	134.8	134.8
Other reserves	3.3	3.4
Total equity	430.4	417.3
Total liabilities and equity	5,689.3	6,067.3

Residential loans and advances

Analysis by lending type at 31 March 2023



Total residential loans and advances decreased in the year. The fall in net lending reflects higher level of capital repayments, seen across the market as borrowers looked to reduce debt in the rising Bank Rate environment, and a lower level of gross lending reflecting a weaker purchase market resulting in advances of £691m (2021/22: £756m). The Society has reinforced its commitment to Purpose-led lending through the provision of responsible lending for its customers and to support people into their homes.

The proportion of prime owner occupied loans has continued to increase in line with the Board's strategy of reducing the legacy buy to let portfolio, which has reduced to 27% compared to 28% in the prior year.

At the heart of our Purpose, the Society supported a further 3,413 first-time buyers, which represented 57% (2021/22: 40%) of all new borrowers in the year.

At 31 March 2023 Group arrears

	Total balances £m	3 months+ %
Owner occupied	3,157.4	0.53
Buy to let	1,141.2	0.70
Total residential	4,298.6	0.73

At 31 March 2022 Group arrears

	Total balances £m	3 months+ %
Owner occupied	3,276.6	0.36
Buy to let	1,300.5	0.25
Total residential	4,577.1	0.47

The Society continues to support borrowers who are faced with ongoing cost of living challenges including the rising Bank Rate environment. Encouraging borrowers to engage early is a key focus for the Society enabling a tailored approach to help reduce the impacts. The wider economic outlook remains uncertain due to the rising cost of living and this may impact arrears levels going forward.

Commercial loans and advances

At 31 March Commercial loan portfolio

	2023 £m	2022 £m
Non-core commercial balances excluding securitisation	227.9	338.5
Securitised commercial balances	6.4	10.0
Impairment provisions	(79.2)	(99.9)
	155.1	248.6

The commercial loan book is included within loans fully secured on land (FSOL) in note 13. Deemed as non-core, the commercial loan book has reduced by 33% this year in line with the Board's long-term strategy of exiting from the commercial real estate sector. Non-core commercial exposures have reduced to just 14% (2021/22: 21%) of their peak position in 2008/09 of £1.7bn, which represents a material de-risking of the balance sheet.

Liquid assets

At 31 March 2023 Liquidity portfolio

	£m	%
Cash and balances with the Bank of England	598.2	60.6
Supranationals	49.9	5.1
Covered bonds	152.6	15.5
Mortgage backed securities	37.9	3.8
Subsidiary/other liquidity	148.0	15.0
Total liquidity	986.6	100.0

At 31 March 2022 Liquidity portfolio

	£m	%
Cash and balances with the Bank of England	652.0	64.4
Supranationals	82.4	8.2
Covered bonds	130.3	12.9
Mortgage backed securities	59.2	5.8
Subsidiary/other liquidity	88.2	8.7
Total liquidity	1,012.1	100.0

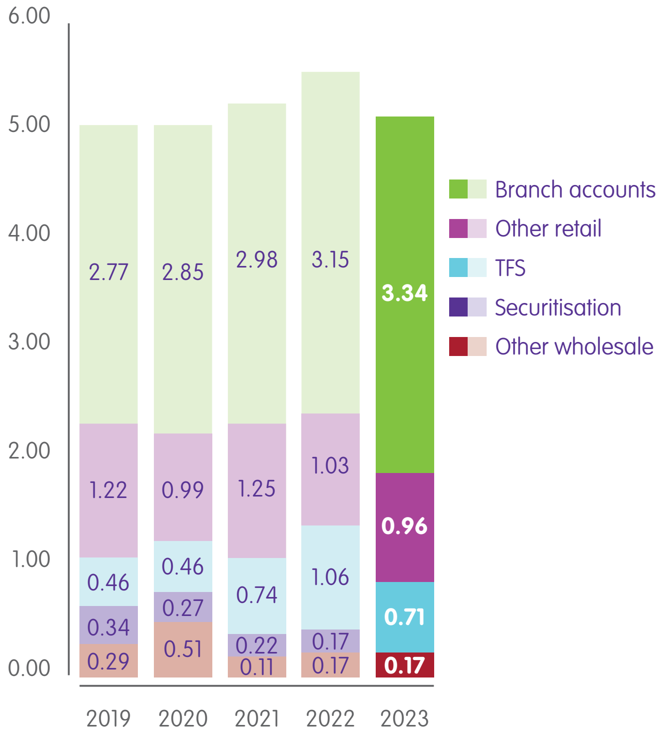
Liquidity holdings comprise high quality liquid assets, with treasury investment securities rated at least single A or held with a Globally Systemically Important Counterparty. The Group has never experienced a default on its Treasury investment portfolio. The liquid asset impairment provision requirements were negligible for both the current and prior year.

Liquidity was maintained at elevated levels throughout the year reflecting the uncertainty in the economic outlook.

The Society's Liquidity Coverage Ratio (LCR), which measures its ability to meet cash outflows in the event of a stressed scenario, was 224% at 31 March 2023 (2021/22: 304%), comfortably above the regulatory minimum of 100%.

Funding

Funding balances



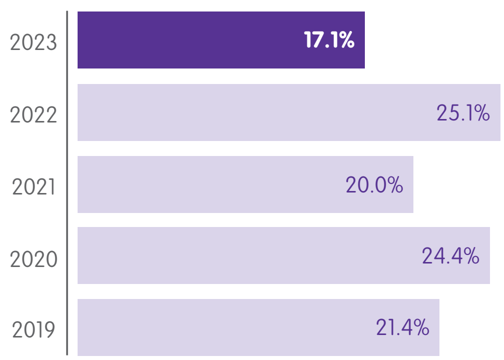
As a building society, the primary source of funding is retail savings. Retail savings balances increased by 3% in the year to £4.31bn (2021/22: £4.18bn). Within this total, branch based accounts increased by 6% to £3.3bn.

During the year, the Society successfully launched a range of competitive savings products across all of our retail channels, attracting over £435m of new funds. This included £285m of funding through our branches, where almost 80% of new funds were received into our range of fixed rate products. Other balances were split evenly across web and direct channels.

Retail savings balances make up 77.6%, (2021/22: 74.9%) of total funding with the remainder being wholesale funding. Accessing the wholesale markets can reduce the overall cost of funding and mitigate risk by diversifying the funding pool.

Wholesale funding balances reduced to £0.88bn (2021/22: £1.40bn) following the maturity of the Kenrick 3 securitisation and our decision to repay £350m of TFSME funding ahead of its maturity in 2024 and 2025. This reduced the ratio of wholesale funding as a proportion of total shares and borrowing to 17.1% (2021/22: 25.1%). Our reduced use of wholesale funding also meant that our encumbrance ratio fell significantly to 17.1% (2022: 27.2%).

Wholesale funding ratio



Capital

At 31 March (unaudited)

	Transitional 2023 £m	Full implementation[3] 2023 £m	Transitional 2022 £m	Full implementation[3] 2022 £m
Members' interests and equity	430.5	430.5	417.3	417.3
Permanent interest bearing shares (PIBS) deduction	(7.8)	(7.8)	(7.8)	(7.8)
Other adjustments[1]	(29.4)	(37.7)	(19.1)	(41.0)
Common Equity Tier 1 (CET 1) capital	393.3	385.0	390.4	368.5
Additional Tier 1 capital	-	-	-	-
Total Tier 1 capital	393.3	385.0	390.4	368.5
Tier 2 capital[2]	21.8	21.8	21.8	21.8
Total regulatory capital resources	415.1	406.8	412.2	390.3
Risk weighted assets (RWA)	2,108.5	2,100.2	2,299.7	2,277.8
Leverage ratio exposure including claims on central banks	5,584.7	5,576.4	6,015.2	5,993.3
Leverage ratio exposure excluding claims on central banks	5,000.5	4,992.2	5,378.2	5,356.3
Capital ratios	%	%	%	%
Common Equity Tier 1 ratio (as a percentage of RWA)	18.7	18.3	17.0	16.2
Common Equity Tier 1 before IFRS 9 transitional arrangements (as a percentage of RWA)	18.3	18.3	16.2	16.2
Tier 1 ratio (as a percentage of RWA)	18.7	18.3	17.0	16.2
Total capital ratio (as a percentage of RWA)	19.7	19.4	17.9	17.1
Leverage ratio including claims on central banks	7.0	6.9	6.5	6.1
Leverage ratio excluding claims on central banks	7.9	7.7	7.3	6.9

1 Other adjustments mainly comprise IFRS 9 transitional arrangements and deductions for intangible assets and deferred tax assets.
2 Tier 2 capital comprises subordinated liabilities excluding accrued interest.
3 The 'Full implementation' basis includes the unwind of IFRS 9 transitional relief.

Regulatory capital is held for the protection of depositors and other creditors by providing a buffer against unexpected losses. The Society is required to maintain thresholds set by the Prudential Regulation Authority (PRA) and our capital is assessed under the revised Capital Requirements Regulation and Directive (CRR II and CRD V). Requirements are continually monitored to ensure minimum regulatory requirements are always met. At 31 March 2023, our CET 1 capital comprised accumulated retained profits in general reserves, core capital deferred shares (CCDS) and other reserves after regulatory adjustments.

The Society's CET 1 ratio at 31 March 2023 increased to 18.7% (2021/22: 17.0%), comfortably in excess of the Society's Total Capital Requirement (TCR) which, at the end of the year equated to 9.4% of risk weighted assets. The TCR refers to the amount and quality of capital a firm must maintain to comply with capital regulations. The Leverage Ratio, excluding central bank claims, also remains strong at 7.9% (2021/22: 7.3%).

As explained in note 1 to the table above, transitional arrangements have been utilised in relation to the adoption of IFRS 9 and its phased impact to regulatory capital. Had the transitional arrangements not been in place, the CET 1 ratio at 31 March 2023 would have been 18.3% (2021/22: 16.2%) and the Leverage Ratio would have been 7.7% (2021/22: 6.9%).

During the year the Society paid £4.8m as distributions on the Society's Core Capital Deferred Shares. In May 2023 the Board declared a final distribution for the period to 31 March 2023 of £2.25 per CCDS, in line with current distribution policy published on 24 November 2021. The final distribution has been deducted from capital but is not reflected in these financial statements as, for accounting purposes, distributions to the CCDS holders are recognised with reference to the date they are declared.

In March 2023, the Society approved an interest payment in respect of the Permanent Interest Bearing Shares (the 'PIBS') of 0.74%, which was paid on 5 April 2023. Whilst noting that any interest payments on the PIBS are at the sole discretion of the Board, in line with the distribution policy interest payments will be limited to the lower of (i) the equivalent annual yield that would have been paid to holders of Profit Participating Deferred Shares (the 'PPDS') (had they remained in issue on their original terms); and (ii) the annual rate set out in the Special Conditions of Issue of the PIBS (the "Specified Rate"), being 6.15% prior to 5 April 2021 and thereafter, a rate of interest reset periodically and equal to the applicable 5-year gilt rate plus a margin of 2.8% (currently 3.0827%).

Whilst PPDS instruments no longer exist (having been exchanged during the Liability Management Exercise (LME) in April 2018), the Society has monitored a notional PPDS reserve. For the year ended 31 March 2023, the Society generated a reported profit after tax of £26.2m, including the impact of £2.5m Tier 2 interest payable. The net profit disregarding Tier 2 interest (after tax) would therefore have been £28.2m, and the notional PPDS reserve account had a balance of £6.6m at 31 March 2023 that could have been distributed to PPDS holders. The equivalent annual yield that would have been paid to PPDS holders would therefore have been 3.86%, with PIBS interest payments therefore limited by the Specified Rate above.

Further details of our capital position are given in the Pillar 3 disclosure document, published on the Society's website.

Principal risks and uncertainties

Effective risk management is integral to the Society's operations.

The separate Risk Management Report on pages 34 to 47 identifies the principal risks and uncertainties faced by the Society and describes, in detail, the West Brom's approach to risk management.

Financial outlook

The Society has delivered a strong performance in the current year, adding to our capital reserves and further increasing our resilience to the potential challenges that lie ahead.

The outlook for the UK economy going forward remains unclear; the joint challenge of rising cost of living and increased borrowing costs mean there is significant uncertainty over the demand for mortgage borrowing over the next 12 months. As a lender with a focus on our Purpose of advancing homeownership, our mortgage lending is concentrated on first-time borrowers, which we expect to be more impacted by this uncertainty.

Further Bank Rate increases are still anticipated and will likely not begin to reverse until inflation returns to more sustainable levels. We may yet see the impacts of rising inflation leading to recession with the potential for rising business failures leading to increases in unemployment. Coupled with ongoing cost of living pressures this may lead to a rise in arears. As always, we stand ready to support our members through these difficult and uncertain times, providing financial resilience to our saving members and tailored support to borrowers who require it.

In response to the societal challenges from climate change, we are developing initiatives and implementing change to limit the Society's greenhouse gas (GHG) emissions by building upon the past improvements we have made. Operational resilience has been a key focus during the year. A centralised area has been established to co-ordinate efforts across the business in the development and delivery of the Society's Operational Resilience Plan and Business Continuity and Disaster Recovery Risk Management Framework, all important components against which to manage operational resilience.

Our responsible, Purpose-led approach to lending will seek out growth opportunities that remains focused on our Purpose, without adversely impacting our savers. Supported by a robust capital position, the Society is well positioned for the challenges ahead.

Engaging our Stakeholders

The Society's Board fundamentally believes that consideration of stakeholder views is an integral part of the Society's strategic development and long-term direction; part of the mutual ethos on which the Society was founded and continues to be guided by.

The Society goes to great lengths to ensure the perspectives of a wide range of stakeholders are included both formally and informally within its decision making structures.

As discussed further in the Corporate Governance section of this report on page 60, the UK Corporate Governance Code (the Code) provides the basis for the Society's approach to corporate governance. As a building society, although the West Brom is not required to comply with the Code, aligned to the fundamental belief referred to above, the Society includes information on how the Board listens to, hears and acts upon the views of stakeholders within its decision making by way of a Section 172 Statement (in so far as this statement is relevant to a building society).

Obligations included within the Statement require directors to act in the way they consider, in good faith, would be most likely to promote the success of the Society for the benefit of its members as a whole, and in doing so have regard to a number of key areas:

- The likely consequences of any decision in the long term;
- How the interests of employees are considered;
- How constructive relationships with wider stakeholder groups, including suppliers are fostered;
- How any community and environmental impacts of our operations are considered;
- How a reputation for high standards of business conduct is maintained; and
- The need to act fairly and balance the interests of members.

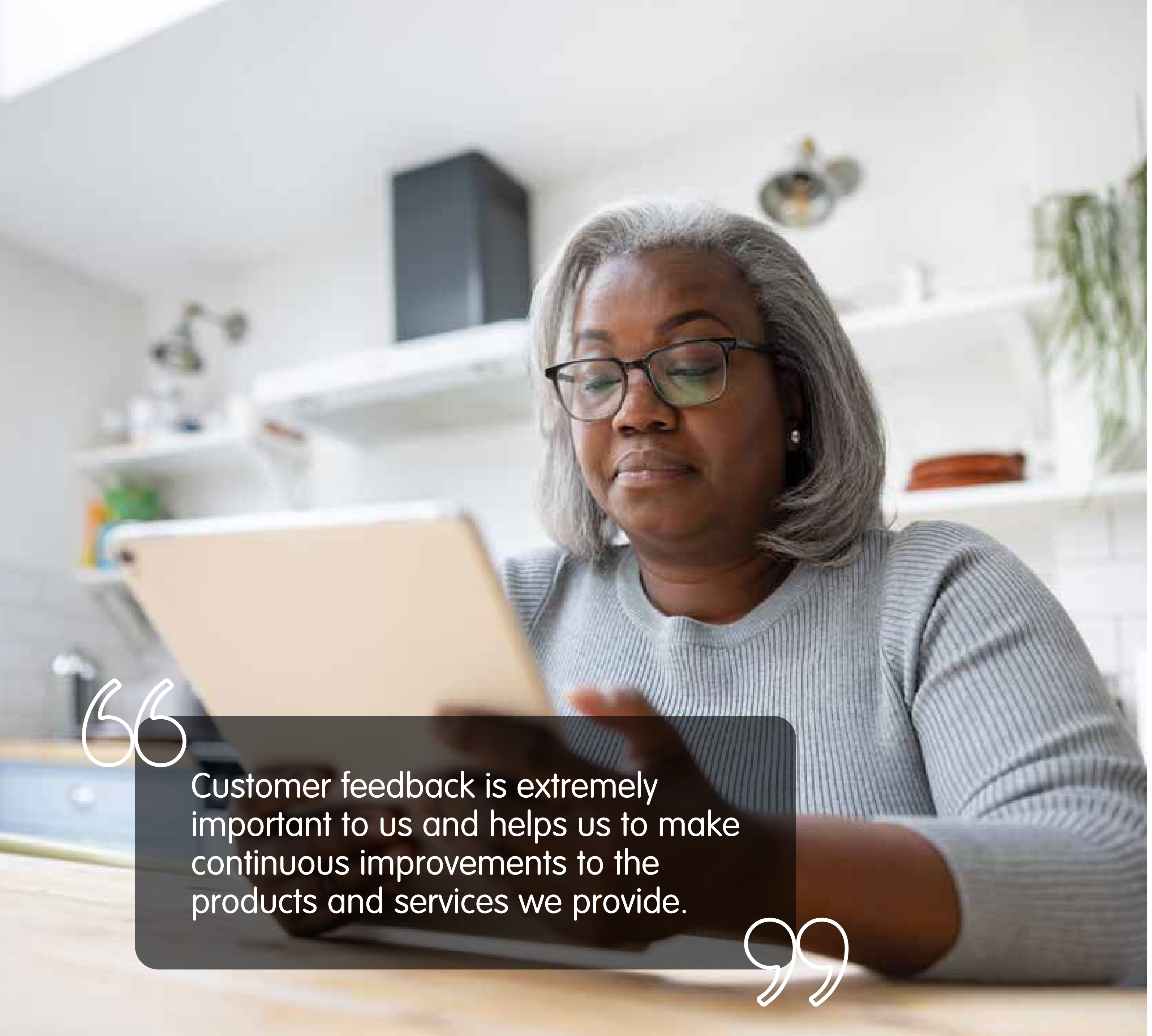
While the Society's commitment to the principle of stakeholder engagement is evidenced throughout this report, the table below provides a summary of how the views of stakeholders have been considered within Board decision making.

Our Stakeholders	How the Board has considered views within decision making	How else we engage to ensure views are considered

Our Members - we exist to fulfil our Purpose to members. Listening to our members helps us develop our strategy in a way that is for their long-term benefit.	Established in 2019 our Member Council acts as a formal body that helps ensure the Board's long-term strategic decision making remains considerate of member views. Across the year the Council has met three times, with meetings chaired by the Society's Chief Executive Officer or Non-Executive Directors where appropriate. Topics discussed have ranged from ESG matters, Executive Director Remuneration and risk management.	• Monthly management information supplied to Board covering key customer metrics including:
		  • NPS;
		  • Customer satisfaction;
		  • Ease of doing business; and
		  • Complaints.
		• Customer feedback – members invited to provide feedback on the Society's services through our 'voice of the customer' initiative.
		• Customer panel – over 2,000 members that regularly complete questionnaires to help us shape our offering. This includes testing literature for new products to make sure it is clear, balanced and easy to understand.

Our Colleagues - our colleagues underpin the delivery of our Purpose. By listening to and acting upon the views of our colleagues we create a culture that enables the delivery of our Purpose.	Like our Member Council, our Employee Council acts as a formal body that helps ensure the Board's long-term strategic decision making remains considerate of the views of the Society's colleagues. Across the year the Council has met three times, with meetings chaired by the Society's Chief Executive Officer or Non-Executive Directors where appropriate. A Non-Executive Director also joins meetings of the Council to strengthen the link between the Council and the Board. Topics discussed have ranged from our employee survey, ESG matters, risk management and remuneration.	• Regular colleague surveys which provides colleagues to have their say on key operational matters at the Society. • The ongoing activity of our diversity and inclusion employee group, Connect. Further details of the activity of our Connect group can be found on page 31 of this report. • Ongoing dialogue through our intranet platform WeBe, which allows open, transparent and conversational discussions across all of our colleagues including the Executive. • A number of 'all hands' meetings hosted by our Chief Executive Officer providing an opportunity for our colleagues to ask questions.
Our Communities - as a business we do not exist in isolation but form an integral part of the communities we serve. Listening to and understanding the role we play helps ensure our decisions remain sustainable.	As a regional building society the strength of our community relationships helps contribute to being a sustainable business – one which cares about the communities it serves. As detailed on pages 29-33 of this report, the significant work the Society undertakes to support local community causes is very much fundamental to what we do and how we operate. The Board receives regular updates on the Society's community activities. Funding from the Society's Community Account has been used to provide grants which have benefitted vulnerable groups across our region. The Society's partnership with Barnardo's to build four 'Gap Homes' is another example of targeted support towards vulnerable people.	• Much needed funding to local causes through our Community Account, affinity savings products and grants administered through the Mercian Community Trust; • Fundraising and volunteering in support of causes covering a wide array of community needs; and • A community apprentice programme offering business mentoring support to young people through local charity Envision. Full details of our considerable community engagement programme can be found on pages 29-33 of this report.

Our Stakeholders	How the Board has considered views within decision making	How else we engage to ensure views are considered
Our wider stakeholder groups - intermediaries, suppliers and investors. We recognise our reliance on a number of key third parties to support core elements of our business model. Listening to the views of these groups helps foster constructive working relationships and is key to our mutual success.	The Board regularly receives updates from the working relationships we foster with our wider stakeholder groups including: • The results of our annual broker survey which provides our much valued intermediary partners the chance to let us know how we're doing and to give us ideas for how we can improve. The results of this survey are used to inform product, policy, process, service and system developments. • Relationships with our wholesale investors overseen by the Assets & Liabilities Committee.	• Regular attendance at supplier user groups which help provide a constructive feedback loop between clients and providers; and • Engagement with investors to support the development of constructive working relationships.
Our Environment - understanding and actively reducing the impact of the Society's operations ensures we are able to support the financial wellbeing of generations to come.	Understanding and seeking to actively reduce the environmental impact of our physical operations is a growing priority of the Board. Our current environmental policy includes aims and targets to be met by continuous improvement: • A programme of work to reduce our resource consumption, re-using and recycling where possible; • Accelerating our target to become carbon neutral for all operations under our direct control by 2025. • Procurement of goods and services in a socially, environmentally and economically responsible manner.	An environmental policy that requires the following aims and targets to be met through continuous improvement which includes: • Carbon neutrality; • Energy and water; • Waste; • Travel and transport; • Procurement; • Health and wellbeing; and • Training, awareness, and communication. Further details on this policy can be found on pages 29-33 of this report.
Our Regulators - as a dual regulated Financial Services firm having an open, transparent and constructive dialogue with our regulators ensures the decisions we make regarding our long-term future are safe and sound.	The Society's Board maintains an open and transparent relationship with both the FCA and the PRA. Key engagement includes: • The management of any actions raised by regulatory reviews at Board level with key updates provided at regular intervals; and • Attendance of Board members, both Executive and Non-Executive, at key regulatory update meetings so the Society's position is considered in light of emerging developments.	• Monthly updates provided on key regulatory items covered within the material supplied to the Board. • Regular dialogue with regulatory supervisors covering principal risks and other matters. • Regular regulatory 'horizon scanning' completed by our Legal and Regulatory team to ensure the Society is well informed regarding latest updates and actions required.



Customer research and engagement

Customer feedback is extremely important to us and helps us to make continuous improvements to the products and services we provide. Like our new ways of working, customer engagement has also taken on a hybrid approach with a mix of regular virtual and in-person activities.

In the last 12 months, we continued to engage with our Member Council with meetings in June 2022, November 2022 and March 2023. The flexibility of hybrid working has benefitted the Council as more members were able to attend to discuss topics, including Executive Director Remuneration, our approach to Environmental, Social and Governance (ESG) matters and colleague engagement.

Through customer mailings, information in branches, updates on our website, events and a twice-yearly newsletter called Connect, we keep members informed about our products and services and how we may be able to help. We recognise that engagement is about far more than just 'telling', and reach out to members for suggestions about the things we could be doing better to improve our products and services.

One way we gather feedback is through our voice of the customer programme, which allows us to track in the moment feedback. Following a visit to one of our branches, a phone call with our Customer Service team or an appointment with a Personal Mortgage Consultant, our customers are invited to rate the service they've received and leave feedback about their experience. We frequently test customer understanding on important communications, use customer research to help develop new propositions and ask for feedback through our customer panel, made up of over 2,000 members. We also hold regular feedback events throughout the year, including our Annual General Meeting and Members' ViewPoint sessions, both of which provide opportunities to meet with and ask questions to our Board and senior management team.

We remain committed to working closely with our members, colleagues and communities, and their feedback ensures we are able to further develop and adapt to continually deliver our Purpose.

Sustaining our Society

As a key mutual organisation within our operating region, we are aware of the potential we have to improve the lives of local people by acting as a genuine force for good. This is expressed through our commitment to social responsibility and, through our fundraising efforts, charity schemes and affinity partnerships, we have supported a wide range of causes. In 2021 we launched our member commitments, two of which show our commitment to members regarding the environment and our support for the communities we serve:

Commit to acting responsibly and in a sustainable way to support our future members and wider society

Play an active role in our local communities, working with local community groups, schools and charities

Good Business Charter

We are proud that we continue to be formally recognised as a responsible and caring business and employer.

The Good Business Charter seeks to acknowledge and encourage responsible business practice. The Charter covers a range of criteria such as prioritising employee wellbeing, fair tax compliance, care for the environment, and treatment of customers and suppliers. The goal is to raise awareness of those businesses that take action and introduce initiatives to benefit communities and colleagues, rather than just being profit driven.

To qualify for the accreditation, firms must demonstrate commitment across 10 categories:

1 Commitment to Customers

Here at the West Brom, we have a very clear Purpose - Support the financial wellbeing of our members by providing a safe and good return on the savings they entrust with us and promote home ownership.

Every day we work hard to deliver the best service and products for our new and existing members, and we put them at the heart of everything we do. Our Member Commitments and Society Values are the foundation on which all our business practices are built, as we make every effort to make a positive difference to all our members and wider society.

"As a mutual, we are owned by our members. This operating model means we can deliver true benefits to them and live our Purpose in the work we do every day. I believe that we put our members' interest centre stage, and our Member Commitments and Values play a central role in guiding what we do and how we work together to achieve this." - ***Jonathan Westhoff Chief Executive Officer***

Our Member Commitments

We gather feedback on how we are delivering against our Member Commitments by:

- Listening to your ideas to make our products and services right for our members – review customer feedback and make changes where appropriate;
- Promoting our products and services in a clear and balanced way, showing the risk as well as the benefits – use measures such as Net Promotor Score and Net Ease Score;
- Product rates fairly reflecting the benefit of being a mutual, run for the benefit of members – comparing the average rate we pay our members to the average rate paid in the savings market. We also measure customer retention on savings products such as fixed rate bonds;
- Delivering what we promise and if we get it wrong, take responsibility and explain to you why and how we can put it right – we look at the number of upheld complaints (the complaints we have resolved) and the number of complaints that are referred to the Financial Ombudsman Service FOS;

- Committing to acting responsibly and in a sustainable way to support our future members and wider society – measures in place to reduce carbon emissions year on year, reduce water usage year on year and zero to landfill (reduction year on year); and
- Playing an active role in our local communities, working with local community groups, schools and charities – we measure the number of paid volunteering days our colleagues undertake, the number of children we have presented our education programme to and the amount of funds raised and distributed for good causes.

2 Equality, Diversity and Inclusion

It is our view that diversity of backgrounds in an environment of equity and inclusion is essential to bringing richness of thought, resulting in a more successful business. For this reason the Society actively seeks a diverse range of colleagues, and continually looks for ways to ensure all colleagues are included and empowered to bring their best, at all times, regardless of their background. Despite the backdrop of a highly competitive labour market, our belief in attracting and retaining a broad range of individuals has remained unchanged to ensure the Society benefits from the best talent. Given that the Society's heartland is in one of the most ethnically diverse regions of the UK, diversity in our colleagues is essential to understanding and delivering for the needs of our customer base.

We demonstrate our commitment to equity, inclusion and diversity in a number of ways. Being one of the original signatories to the Women in Finance Charter with our CEO as the Executive Sponsor, we have continued to meet our originally set targets and in 2021 announced revised targets for senior management population to make even greater progress by the end of 2024. In our third year as a signatory to the Race at Work charter, we have continued with our commitments to improve outcomes of colleagues from ethnic minorities. Continuing with our success in 2021 achieving the Disability Leader Status, we have actively worked with local schools and colleges to provide students with disabilities valuable 'on the job' experience with the opportunity to work with West Brom colleagues and gain a better understanding of the workplace.

We published our sixth annual Gender Pay Gap report, acknowledging that closing of gaps in these published metrics remains a key focus for the Society. One of the main actions required to make meaningful progress on closing the gap is to ensure greater balance between genders into entry level roles, many of which are part-time positions in branches and currently female dominated. As such, we are encouraging and, where suitable, taking positive actions for more male applicants to consider entry level roles both on full and part-time bases. We continued to work closely with local colleges, providing career advice and work experience for students to gain a better insight into what it is like working at the Society.

The ultimate aim is to have a gender balance at all levels of the organisation, not just to remove the pay gap, but to ensure a balance of views and perspectives across the Society, as one key element of the diversity agenda. As a signatory to the Women in Finance Charter, female Board representation continued to be at 40%, exceeding our target of 30%. We are also making good progress with female representation at senior management, including senior specialist roles, which by the end of March 2023 was at 38%, against our revised target of 40% to be achieved by the end of 2024. In total, out of 650 colleagues at the year-end (including Non-Executive Directors), women make up 412 (63%). Details of colleague composition at the end of the year is outlined below, compared to 2022:

At 31 March		2023 Female	2023 Male	2022 Female	2022 Male
Directors	Number	4	6	4	6
	Percentage	40%	60%	40%	60%
Senior managers	Number	29	47	27	53
	Percentage	38%	62%	34%	66%
Other colleagues	Number	379	185	369	168
	Percentage	67%	33%	69%	31%

Senior managers include divisional directors and colleagues categorised as 'Senior Managers' and 'Senior Specialists'. Many 'Senior Specialist' positions are within areas such as Finance and IT, both divisions that historically attract more men than women at all levels, so a concerted effort is required to proactively attract more women to commence careers in these divisions, this needs actions that will have a long-term impact. We have recently partnered up with Reed Women in Technology Mentoring Programme to support our colleagues with confidence to take control of their own careers in an industry that is typically male orientated via mentoring and career coaching.

This is our second year of publishing the Ethnicity Pay Gap report, after being one of the first companies in our industry to do so, and we have seen good progress across a number of indicators. We have also taken practical steps to tackle potential barriers people from ethnic minorities face in recruitment and progression, with initiatives such as diversity and inclusion training to all employees and monitoring ethnicity statistics across the employee lifecycle. Looking at the ethnicity of colleagues at the Society based on respondent data, the composition (compared with 2022) is as follows:

At 31 March		2023 Ethnic minority	2023 White	2022 Ethnic minority	2022 White
Directors	Number	1	9	2	8
	Percentage	10%	90%	20%	80%
Senior managers	Number	12	64	14	66
	Percentage	16%	84%	18%	82%
Other colleagues	Number	197	364	176	360
	Percentage	35%	65%	33%	67%

Having 35% of the Society's 'other colleagues' drawn from ethnic minority communities is particularly valuable for branches in areas with a highly diverse ethnic profile. By having colleagues with multi-lingual skills, we are better positioned to offer a service for customers in such localities that are culturally sensitive and relevant.

Our Disability Confident Leader status continued to recognise the Society's commitment to raise colleague awareness, promote a culture of disability confidence, record and report on disability, mental health and wellbeing, and undertake activities to be a Disability Confident Leader in the wider community. While being proud of this work, we recognise there is still work to be done in particular around neurodiversity to ensure colleagues from all walks of life feel supported.

The Society's colleague-led equity, inclusion and diversity focus group – Connect, launched in 2018, continues to raise awareness and strengthen the environment where embracing different cultures and colleagues from all backgrounds and diversities are encouraged and celebrated. The group is sponsored by the Society's CEO and Chief People Officer which allows two–way communication between colleagues and the Executive. This provides our colleagues with the reassurance that they are supported, valued and listened to.

3 Employee Well-being

We have a suite of clear, fair and transparent policies designed to support and encourage employee well-being including a sickness policy which clearly outlines both employee and employer responsibilities. In addition, we have a number of colleagues who are trained as Mental Health First Aiders. We also have an Employee Assistance Programme (EAP) in place with Health Assured, available to everyone with 24/7 free and confidential support, along with a wide range of information and guidance on health, lifestyle and well-being matters including four week health plans and mini health checks.

4 Real Living Wage

We are an accredited Living Wage Employer with the Living Wage Foundation committed to paying at least the voluntary living wage for all employees and any contractors working permanently on our sites (Head Office and in our branches).

5 Employee Representation

There are two key ways our people's voices are heard:

- Employee Council. The Employee Council offers an opportunity for feedback – something we always value at the West Brom – but has a much wider remit than that, giving people a genuine say and influence on the Society's strategic decision-making, right up to Board level; and
- The Society's Union is Community. All colleagues are able to join the Union which is in place to help people at work, at home, and when life gets complicated.

6 Fairer Hours and Contracts

We're proud to be one of the first 50 employers to be accredited as a Living Hours Employer (including the first building society and the first business in the West Midlands) providing security of hours alongside providing the real Living Wage as a minimum.

7 Environmental Responsibility

The Society is continuing its journey to net zero, identifying and maximising opportunities to reduce its environmental impact.

Over the last 12 months focus on energy has continued with the trial of a replacement branch heating and cooling system which is anticipated to reduce energy consumption by 19,000 kwh over 12 months. The system also helps us to improve the air quality for the benefit of both colleagues and customers.

Refurbishment of properties is key in reducing property energy wastage and our expectation is to achieve an energy performance rating of at least C by the end of the next financial year through our refurbishment programme across our West Bromwich Homes Limited rental portfolio (our latest flat refurbishment achieved a rating of B). This reduction is largely through improved insulation and moving to double glazed windows.

Transport and journey reduction represents a challenge. As part of our transport initiative and to encourage the use of electric vehicles (EVs) additional EV charger points have been installed for use by colleagues, which has proved very successful. By charging vehicles through renewable energy a reduction is achieved to the carbon impact of commuting. Our plan is to continue installing additional chargers as demand grows.

Our suppliers play an important part in our journey and are being encouraged to work with the Society in achieving our environmental goals. A successful example is where our cleaning service supplier has moved to only using eco-friendly cleaning solutions.

The Society set itself a goal of nil to landfill which has been achieved through identifying waste streams and putting in place reduction initiatives and removing non-recyclable items such as single use plastic. Again, this involved working with suppliers and their supply chain to ensure all items are sustainable and recyclable (e.g. all our redundant computer equipment is collected and recycled by a specialist company).

The Society has committed to the use of only FSC (Forestry Stewardship Council) paper in its marketing materials. This along with the use of recyclable paper and shredding of paper for recycling reduces the impact of paper usage on our woodlands.

This section of the report summarises the energy usage, associated emissions, energy efficiency actions and energy performance for the Society, under the Streamlined Energy & Carbon Reporting (SECR), as implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

	2022-2023		2021-2022	
Energy Use 2021-2022	kWh p.a.	tCO_2 (tonnes) p.a.	kWh p.a.	tCO_2 (tonnes) p.a.
Buildings electricity	**2,087,274**	**403.6**	2,229,617	473.4
Buildings natural gas	**984,462**	**179.7**	1,221,067	223.7
Transport	**170,868**	**40.2**	126,202	29.4
Totals	**3,242,604**	**623.5**	3,576,886	726.5

This represents an overall reduction of 14.18% in the 12 month period.

The plans for the future are to continue to aim for carbon net zero through more challenging initiatives:

- Solar Power – A review is underway to identify the feasibility of using solar power at the Head Office. It is anticipated that solar power could become the main source of energy for the office heating and cooling systems.
- LED Lighting – This continues to offer an effective energy reduction solution but requires high capital spend to realise the benefits. We are currently working with a supply partner on developing an effective solution.

8 Ethical Sourcing

We are committed to the standards set out in the Ethical Trading Initiative Base Code and we encourage our suppliers to do the same.

The Society publishes a Modern Slavery and Human Trafficking Statement annually on its website and continually seeks to improve its vigilance in respect of modern slavery issues via its Supplier Selection and Management policy and related procedures. The Society has a zero tolerance approach to slavery and human trafficking in all its forms, both in its supply chain and its business operations.

The Society adheres to the highest standards with regards to anti-bribery and corruption. All colleagues are trained in recognising and understanding the associated risks and are required to complete mandatory training. Additionally, the Society has in place policies to comply with applicable laws, including the Bribery Act 2010 and the Criminal Finances Act 2017.

9 Prompt Payment to Suppliers

We have signed the government's Prompt Payment Code and commit to paying all suppliers within 30 days. Unless there is specific agreement, the Society will endeavour to pay suppliers with 'immediate' payment terms within 2 weeks of receipt of the invoice.

We are pleased to confirm that for the financial year ending 31 March 2023 all suppliers have been paid within 30 days of receipt of invoice.

10 Pay Fair Tax

Our Tax Strategy Statement is reviewed and approved each year, with the current statement approved at the Audit Committee on 1 March 2023, and published on our website.

Community funding

In the past year, the Society has responded to requests for financial support from multiple charities and community groups, most working at a grassroots level, to alleviate the difficulty and disadvantage faced by many vulnerable groups across our region. The Society does this by means of funding from our Community Account, an affinity savings product arising from the Society's well-established partnership with the Diocese of Lichfield as well as local fundraising across our branch network.

Grants to help local causes are administered through the Mercian Community Trust, which has been formed from this partnership, and it has enabled us to provide much-needed assistance to causes covering a wide array of needs (details of which can be found in our Impact Report to be published later this summer).

The value of volunteering

For the Society, being part of the community means engaging in ways that have a real meaningful impact. This is where volunteering is invaluable as an expression of our commitment to the community where colleagues give their time and talents for the sake of others. Its relevance and significance is indicated by the gratitude of charities and community groups but, for colleagues from the Society, volunteering has clear benefits too.

It can expand their understanding of what other people have to go through in life, giving them a sense of emotional satisfaction that their practical contribution is visible and appreciated.

Colleagues at the Society are entitled to two volunteering days every year and for the financial year ending 31 March 2023 637 hours were recorded as volunteering days.

The strength of partnerships

The Society's affinity partnerships have proved a way for members to show their commitment to organisations that might carry a particular resonance for them. It could be a local hospital, a partnership concerned with social disadvantage, or sporting bodies to facilitate opportunities for young people.

Members are able to do this by saving with the Society through special affinity accounts where bonus payments, based on total savings held, are allocated on a yearly basis to those preferred organisations.

The Society's partnership with the Diocese of Lichfield is one such example where it is able to respond to pressing social need through the medium of the Mercian Community Trust.

Another longstanding and immensely successful partnership for the Society is with Birmingham Children's Hospital, which enjoys a richly-deserved reputation, nationally and internationally, for its treatment and care of children and adolescents. Thanks to the Society's Red Balloon Appeal, some £962,261 has been generated for the hospital since 2006.

In August 2021 the West Brom formed a partnership with Barnardo's to build four 'Gap Homes' for young vulnerable people leaving the care system in the Black Country area.

The Society remains committed to joining the Dormant Assets Scheme, operated by Reclaim Fund Ltd (RFL), to fund £600,000 for the new homes, with further colleague fundraising planned in the future to provide continued support to the charity.

The 'Gap Homes' initiative utilises vacant land within a local authority and builds energy-efficient, easy to maintain homes for care leavers, offering vulnerable young people a vital transition home whilst also being supported by Barnardo's staff. Barnardo's and the West Brom are in discussions with local councils to explore building the 'Gap Homes' within the region and to ensure the project is delivered in the heart of the Black Country.

The partnership will last for at least a further two years whilst the homes are being built, with further support from the Society providing other services such as financial education, internships and work placements for the individuals that will be using the new homes.

On behalf of the Board

Alex Pawley
Chief Financial Officer
31 May 2023

This section outlines the risks that the Society is exposed to and how they are managed.

Risk Management

Overview

Effective management of risks and opportunities is essential to achieving the Society's objectives. The Board aims to manage effectively all the risks arising from its activities and believes that its approach reflects an understanding of actual and potential risks, the quantification of the impact of such risks, and the development and implementation of controls that manage exposures within the Board's risk appetite.

The Society operates entirely within the UK financial services market and only takes on risks which it has the capability to understand and manage effectively.

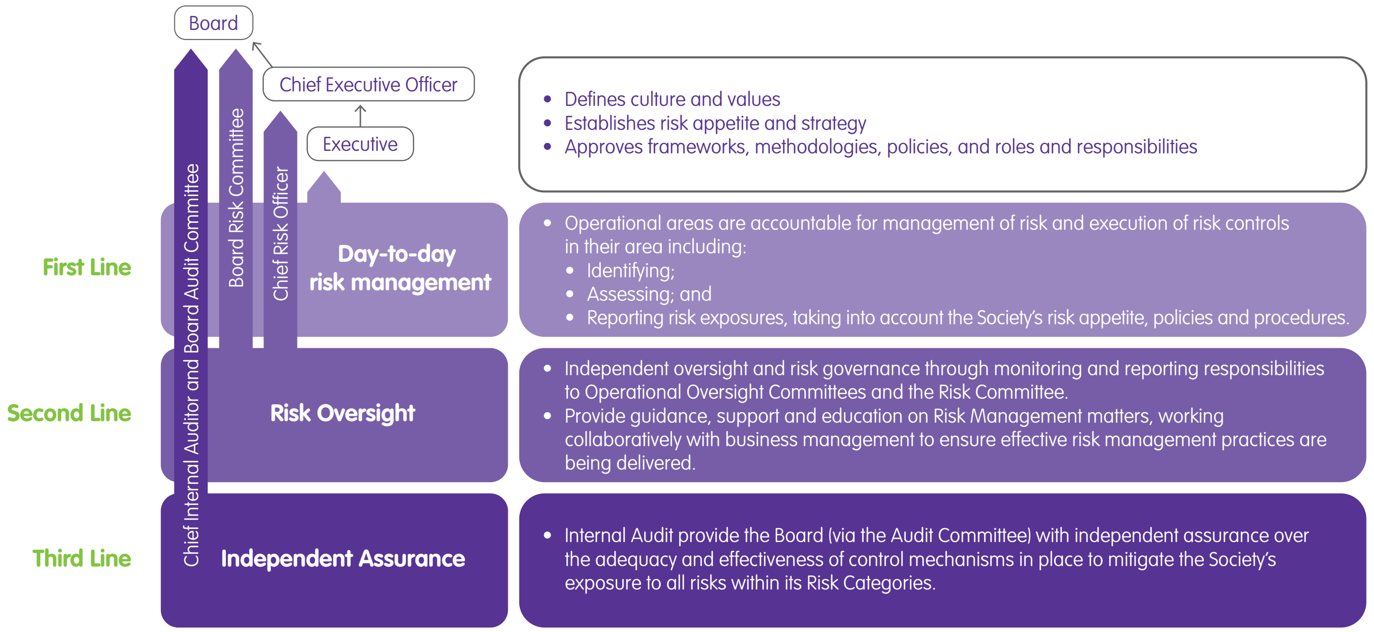
Risk management framework

The Society's activities are governed in line with its Purpose and values. The Board has agreed a set of Risk Appetite statements covering the principal risk categories which the Society is exposed to: business, credit, capital, liquidity, market, margin compression, operational, retail conduct, pension liability, and information risk (the Society's Risk Appetite Statements). The Board also reviews the key strategic risks that may impact the delivery of its business plan.

These Risk Appetite Statements drive corporate planning activity, including capital and liquidity planning, as well as providing the basis for principal risk measures. The measures are categorised as:

- Level 1 - These are set by Risk Committee (RC) and Board has full visibility;
- Level 2 - These are set by Executive sub-committees but are reported to RC and Board; and
- Level 3 - These are fully delegated to sub-committees and reported to RC and Board by exception.

The final element of the framework is the formal structure for managing risk across the Group. This is based on the 'Three Lines of Defence' model which is illustrated below.



Governance structure

During the year, risk governance was provided through ten risk management committees/groups:

Risk Committee (RC) - Comprising five of the Non-Executive Directors, this Committee is responsible for the oversight and management of the principal and key strategic risks identified by the Board.

Audit Committee (AC) - Comprising four Non-Executive Directors, the Audit Committee provides the Board with assurance regarding the integrity of the financial statements, the adequacy of the provisions and the adequacy and effectiveness of the Society's risk management frameworks.

Independent assurance is provided by the Internal Audit function which has a direct reporting line into the Chair of Audit Committee.

Executive Risk Committee (ERC) - This Committee is chaired by the Chief Risk Officer (CRO) and is responsible for providing the Executive and the Risk Committee with an enterprise wide view of the risk profile of the Society, including current and potential risks. The ERC is also accountable for driving the detailed implementation of the Society's Risk Management Framework.

Assets & Liabilities Committee (ALCo) - This Committee is chaired by the Chief Financial Officer (CFO) and is responsible for overseeing the assets and liabilities risk, including the assessment of exposure to Treasury counterparty credit, market, liquidity, pension liability, margin compression, basis and interest rate risk.

Residential Credit Committee (RCC) - This Committee is chaired by the Senior Manager Credit Risk and is responsible for overseeing the exposure to credit risks generated as a result of the Society's residential lending activity.

Commercial Loans Risk Committee (CLRC) - This Committee is chaired by the CRO and is responsible for overseeing the Society's exposure to credit risks in the commercial loan book.

Conduct Risk & Customer Review Group (CRCRG) – This Group is chaired by the Society's Chief Executive Officer (CEO) and is responsible for overseeing the management of retail conduct risk and includes responsibility for monitoring customer outcomes arising from the Society's retail activities.

Operational Risk & Resilience Group (ORRG) – This Group is chaired by the Chief Operating Officer (COO) and oversees the management of all operational, information and operational resiliency risks.

CRCRG and ORRG were formed in January 2023 as part of a restructure replacing the Operational, Conduct and Information Risk Group (OCIRG) and Operational Resilience Group (ORG).

Capital Review Group (CRG) - This Group is chaired by the CFO and is responsible for overseeing the Group's capital position.

Model Risk Committee (MRC) - This Committee is chaired by the CRO and is responsible for overseeing the Society's exposure to model risk across the business.

Risk categories

The Board has identified ten principal risk categories, which together define its overall risk universe. These are defined below:

Retail conduct risk

The risk that inappropriate behaviours by the Society result in adverse outcomes for retail customers.

Business risk

The risk of the Society failing to meet its business objectives through: the inappropriate selection or implementation of strategic plans; inadequate assessment and mitigation of climate change related risks; and/or failure to implement a diverse and inclusive culture.

Operational risk

The risk of loss and/or negative impact to the Society resulting from inadequate or failed internal processes, systems or people, or from external events.

Credit risk

The risk that losses may arise as a result of the Society's borrowers, debtors or market counterparties failing to meet their obligations to repay.

Information risk

The risk that customer or Society information assets are managed or processed incorrectly or are not adequately protected. It includes inadequate data quality and failure to comply with data protection and data privacy requirements.

Capital risk

The risk that the Society has insufficient capital to cover stressed losses or to meet regulatory requirements.

Liquidity risk

The risk that the Society either does not have sufficient financial resources to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost.

Market risk

The risk of changes in the value of, or income arising from, the Society's assets and liabilities as a result of unexpected changes in financial prices, primarily interest rates, property prices, bond yields and inflation.

Margin compression risk

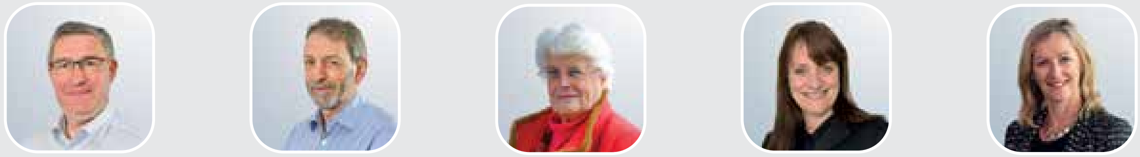
The risk of a margin squeeze caused by having limited ability to increase margins on the mortgage book if the Society were to experience a relative increase in funding costs affecting variable rate retail funding, and in particular the administered rate retail balances.

Pension liability risk

The risk that there will be a shortfall in the value of the Society's pension fund assets over and above the liability to its employees under the defined benefit pension scheme. This may result from a number of sources including investment strategy, investment performance, market factors and mortality rates.

For each risk category the Board has agreed an appetite statement and associated key metrics which, together, define the level of risk the Board is prepared to accept or tolerate. In addition, key threats and the corresponding Society responses or mitigants, as well as opportunities, have been identified. The mitigating controls and the effectiveness of the controls are monitored by line management, with control functions providing a Second Line of Defence. Internal Audit, through an approved assurance programme, provides the Third Line of Defence.

The Risk Committee meets at least quarterly to review the Society's exposure to the risk categories. During this financial year, the Committee met on six occasions.



David Thomas (Chair) | **Dave Dyer** | **Anne Gunther** | **Victoria Mitchell** | **Lynne Shamwana**

KEY decisions reached

- Cost Of Living – reviewed the approach to supporting customers with mortgage payment difficulties during a period of increasing day-to-day living costs, energy costs and interest costs and encouraged greater pre-delinquency recognition and assistance;
- Operational Resilience – reviewed quarterly the performance of Important Business Services and Impact Tolerances;
- Credit Risk – approved retaining a prudent approach to setting residential lending policy given the macroeconomic uncertainty, whilst remaining supportive of home ownership members;
- Retail Conduct Risk – approved the revised approach to monitoring the delivery of good customer outcomes ahead of the Consumer Duty in July 2023; and
- Margin Compression Risk – continued to monitor and approved proposals to manage exposure to the unprecedented rises in Bank Rate environment and the ongoing volatility in interest rate outlook.

Business conditions and the economic environment

The UK economy slowed in the second half of the financial year on the back of high inflation and rising cost of living pressures, with the Ukraine/Russia conflict exacerbating supply chain issues initially caused by the COVID-19 disruption. Global central banks have responded to higher inflation by shifting from quantative easing to quantative tightening and sharply raising interest rates, with the Bank of England increasing Bank Rate to 4.25% in March 2023, its highest level since 2008, with any further increases expected to reach a peak later in 2023.

House price rises have slowed throughout 2022 and are largely predicted to reduce further throughout 2023 with some estimates of a 10% correction in prices throughout 2023. The Society has shown appropriate prudence in its modelled macroeconomic scenarios to take account of this risk.

Households are facing unprecedented pressure as a result of rapid increases in the cost of living. Although mortgage arrears rates have continued to remain low the Society has enhanced its forbearance practices, with a focus on pre-emptive tailor-made support for borrowers. These changes align to the tone being set by our regulators.

The Society is exclusively focused in the UK and, therefore, the general UK macroeconomic environment is key to its success. The Society considers macroeconomic risks on a regular basis, under central, downside, stressed and upside conditions to understand and manage the impact on its business model.

The war in Ukraine, the ongoing transition following the UK leaving the EU means there is much uncertainty which has the potential to further impact on consumer and business confidence, with the number of company insolvencies in 2022 being the highest since 2009. The external factors that impact the Society include:

- Interest rates (Bank Rate, SONIA and other market rates);
- Inflation;
- Unemployment; and
- The residential housing and commercial property markets.

Day-to-day management of key risks

Primary responsibility for risk management, including the design and operation of effective controls, rests with the management of each business function - the 'First Line of Defence'. Support and challenge is provided through specialist risk functions - Credit Risk, Operational Risk, Compliance and Financial Crime, and the ALM (Asset and Liability Management) Oversight and Model Risk Oversight – the 'Second Line of Defence'. These functions develop and review policies, monitor and support compliance with those policies, and support the business functions in their management of risk.

Governance and oversight is provided through a number of management and executive committees as detailed on page 36.

Credit risk

The Society's Board establishes the credit risk appetite and supporting lending policy. All new lending is monitored against risk appetite limits, with any breaches reported through the Society's risk committees so that the need for corrective action may be considered.

The Society's exposure to residential and commercial credit risk is managed by a specialist Credit Risk team, which is responsible for the Credit Risk Management Framework and associated limits and providing regular reports to the Risk Committee.

Economic uncertainty and market movements including significantly higher interest rates, have manifested into cost of living challenges for many in the UK. In response, the Society has continuously reviewed its credit risk policies and procedures that reflect these affordability challenges. This approach supports both responsible lending decisions and the support provided to individual borrowers in vulnerable financial situations.

The Society's approach to collections and recoveries has continued to evolve reflecting experiences of working with borrowers through the pandemic and the observed increases in the cost of living. Focus has been drawn to providing pre-emptive support for borrowers. The Society's approach is reflective of any ongoing government and regulatory guidance and has specifically been fully cognisant of the Financial Conduct Authority's (FCA) Tailored Support Guidance.

The Society's internal credit risk reporting has evolved to ensure that the risk committees have the required information in relation to borrowers' potential affordability issues or those already in financial difficulty in light of the cost of living challenges.

Additionally, credit risk can arise within treasury transactions (used to meet liquidity requirements and those hedging instruments used for interest rate risk purposes). This type of credit risk is managed by the Treasury Middle Office team. On a daily basis, this team monitors exposures to counterparties and countries, and ensures operations remain within Board approved limits. ALCo and the Board review the Treasury Policy and limits, with reports presented to ALCo on a monthly basis confirming compliance with such policy limits.

Market risk

Market risk exposures are managed through the Treasury department which is responsible for managing exposure to all aspects of market risk within parameters set by the Board.

ALCo reviews the Treasury & Financial Risk Management Policy, recommending changes to the Board as appropriate, and ensures that regular reports on all aspects of market risk are assessed and reported to the RC and Board. The key market risk is interest rate risk, which arises as a result of differences in the timing of interest rate re-pricing of assets and liabilities. To mitigate this, the Treasury team uses natural balance sheet hedging (e.g. matching 2 year fixed rate mortgages with 2 year fixed rate saving bonds) and derivative instruments. The Building Societies Act 1986 restricts the use of derivatives strictly to hedge against the impact of fluctuating external factors, such as interest rates.

In line with regulatory requirements and best practice, the impact on net interest income (NII) of a parallel shift in interest rates in both directions is considered. In addition, the impacts of alternative non-parallel scenarios upon NII and market value are also considered. Both are reported monthly to ALCo.

Interest rate sensitivity also arises from the potential for different interest rates to move in different ways, e.g. Bank Rate mortgages are partially funded by administered rate liabilities. The impact of these mismatches (basis risk) is monitored by the Treasury team and reported to ALCo.

The Society's main exposure to equities is through the defined benefit pension scheme. There is no direct exposure to foreign exchange rates.

The Society has invested in property through its subsidiary West Bromwich Homes Limited (WBHL) and offers residential property for rent. This exposes the Society to movements in house prices.

Liquidity risk

The Society's funds mortgages on residential property substantially from shorter term deposits provided by its saving members. The contractual maturity of the mortgages is up to 35 years although loans are typically repaid early due to borrowers moving home or remortgaging.

Savers' deposits, whilst accessible predominantly on demand, at short notice or for fixed periods, nevertheless tend to remain with the Society for longer periods. A substantial proportion of savers have long-established relationships with the Society, predominantly through its Branch network.

This difference in the nature of borrowers' and savers' relationships cause a structural mismatch between the speed at which the Group can generate cash from its business assets and the demand for funds to meet its liabilities. To mitigate this risk, the Group holds sufficient cash to meet the normal day-to-day operations of the business and, in addition, maintains a buffer of high quality liquid assets, which can be converted quickly into cash to cover outflows in stressed conditions. Processes are in place to ensure that the quantity, quality and availability of these liquid resources is adequate at all times.

The Board undertakes a detailed review of its liquidity adequacy under the Internal Liquidity Adequacy Assessment Process (ILAAP) and submits this to the Prudential Regulation Authority (PRA) for supervisory review upon their request. The ILAAP specifies the daily processes that the Society will use to determine the amount of liquidity required to cover its potential cash flow needs under a range of stresses including three PRA standard scenarios: 'idiosyncratic', 'market-wide' and 'combined'.

The supervisory review also informs the PRA's view of the amount of 'buffer' or highest quality liquid assets that the Society should hold to meet the three standard regulatory stress scenarios and the maximum allowable gap between maturing wholesale assets and wholesale liabilities (wholesale refinancing gap). The Treasury team maintains liquid resources at the greater of the Liquidity Coverage Ratio requirement or the internal assessment of liquidity adequacy.

The Net Stable Funding Ratio (NSFR) is a longer-term stable funding metric, which measures the sustainability of the Society's long-term funding requirement. The Society's NSFR is in excess of 100%, and the Society holds sufficient stable funding to meet this.

The Board has established a Liquidity Risk Policy which lays down a rigorous framework of limits to control the Society's liquidity risk. The governance process surrounding liquidity risk management activities is as follows:

- The RC has delegated authority for the governance of liquidity risk management to the ALCo which meets at least monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC) which typically meets weekly. LMC looks at liquidity stresses over a horizon of up to three months and plans cash flows over a rolling 12 month planning period;
- The Treasury team is responsible for day-to-day management and maintenance of adequate liquid resources under delegated authority from ALCo; and
- The RC monitors independently the overall liquidity adequacy process, including the activities of ALCo, LMC and the Treasury team. It also reviews and recommends for approval to the Board the ILAAP at least annually.

The Society is responsible for the liquidity and cash flow requirements of wholly owned subsidiaries. Throughout the last financial year, a conservative approach to liquidity management has been maintained, holding the vast majority of liquidity in the Bank of England Reserve Account and other high quality, Liquidity Coverage Ratio-eligible assets. Treasury operates a strict control framework and exposures are monitored on an intra-daily basis.

Capital risk

The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) covering all risks. This is used to assess the Society's capital adequacy and determine the levels of capital required going forward to support the current and future risks in the business. This analysis is collated through the ICAAP that is approved by the Board. The ICAAP incorporates expected future capital requirements from changes in business volumes, mix of assets and activities within the context of current and anticipated future risks, and stressed scenarios. The ICAAP is reviewed by the PRA periodicaly to set the Society's Total Capital Requirement.

Society capital requirements are reviewed on a monthly basis and the results of this monitoring are reported to the ALCo, RC and the Board. RC reviews and recommends for approval to the Board the ICAAP at least annually.

The detailed breakdown of the Society's capital position can be found on page 23.

Operational risk

Each business function has a clearly articulated responsibility for identifying, monitoring and controlling its operational risks. The business function receives support and guidance from the Operational Risk team, which has regular dialogue with function managers and collates management information for review by executive management, the Operational Risk and Resilience Group, and the Risk Committee.

The Operational Risk team also provides independent input and challenge to the business functions, both through the regular review of operational risks and day-to-day business initiatives. They also oversee the operational risk scenario analysis undertaken that feeds into the ICAAP.

During the year there has been continued focus on our Operational Resilience and there has been co-ordinated efforts successfully across the business in the delivery of the Society's Operational Resilience Plan and Business Continuity and Disaster Recovery Risk Management Framework, all important components against which to manage operational resilience.

The Society has established its Important Business Services, associated Impact Tolerances and completed resource mapping. The main focus now is the continued testing against severe but plausible disruption scenarios to identify any vulnerabilities to the Society remaining operationally resilient. These steps support us in our delivery against the regulatory requirements as we have entered the transition period to March 2025, defined by the FCA and PRA "as the ability of firms to prevent, adapt, respond, recover and learn from Operational Disruptions".

The COVID-19 pandemic resulted in a number of changes to working practices, which have endured post pandemic creating a 'new normal'. Hybrid working is now ingrained in how we operate as a business. Whilst this has positively impacted our operational risk profile in areas such as resilience, it has also resulted in a challenging market for recruitment and retention of resources. Where required, controls have been strengthened by First Line business areas and more widely, the risk and control environment is being monitored by Second and Third Line functions. The Society has now conducted its business on the basis of this new operating model for over two years.

Retail conduct risk

Conduct risk is overseen by the FCA who continue to increase the regulatory focus on it. This continues to go beyond the previous focus on compliance with rules, on process and on treating customers fairly, to now embrace a holistic approach of how a firm organises itself and does business in order to ensure good customer outcomes. The implementation of the new Consumer Duty in July 2023 builds further on the requirement to ensure good customer outcomes and in order to ensure the Society meets these enhanced regulatory requirements, a number of enhancements have been implemented to policies and procedures to ensure customer outcomes remain at the forefront of all the Society's retail activities.

The establishment of a dedicated Conduct Risk oversight group (CRCRG) and the appointment of a Chief Customer Officer, as detailed on page 3 further emphasises the importance the Society places on ensuring good customer outcomes with the management of conduct risk a key component in the successful delivery of the Society's strategy and objectives, and protection of its members and customers.

Information risk

Understanding and managing information risk is imperative to the successful achievement of the Society's business objectives.

Effective policies, procedures and processes complemented by technological defences and detection tools, provide for successful information risk management.

To this end, the Society has determined a risk management strategy based on defined principles and managed against a clearly articulated and Board approved, Risk Appetite Statement.

The Society is acutely aware of the increased level of threat to Cyber Security and as such is focused on enhancing its capability in this area.

The Society has a Recovery Plan in place that captures, inter alia, management actions for a range of adverse scenarios that may impact any of the above risks either individually or collectively.

Climate change

Climate change has been consistently highlighted as one of the top risks facing global economics by the World Economic Forum (WEF). Although climate change is not a principal risk for the Society and is an element of business risk, the Society recognises that climate change threatens financial stability and exacerbates existing risks including those potentially faced by our customers. In addition, climate change implications may affect the ability of the Society's members to transition to a low-carbon economy. While the financial risks from climate change may crystallise in full over longer time horizons, there are also short-term impacts. Financial risks from climate change can arise through two primary channels: physical and transition, which can manifest through increased business risk, credit risk or market risk.

Physical risk can manifest through increasing frequency, severity or volatility of extreme weather events impacting mortgaged properties. Transition risks can arise from the process of adjustment towards a low-carbon economy. The Society continues to work to quantify its potential exposure to both of these climate change risks to reflect emerging thinking and access to improving data sources.

Since 2019, the Society has been enhancing and embedding its capabilities to monitor and manage climate risk and meet the requirements of the PRA Supervisory Statement SS3/19 – Enhancing banks' and insurers' approaches to managing the financial risks from climate change. The Society's disclosures are aligned with the Taskforce on Climate-Related Financial Disclosure (TCFD) recommendations with regards to Governance, Strategy, Risk Management, and Metrics & Targets.

Governance

RC, as delegated by the Board, has responsibility for the oversight of climate change risk. The risks from climate change, and progress towards identifying and managing them, are presented to RC on a regular basis. RC is responsible for setting the overall risk appetite, having ultimate approval of risk management actions, oversight of climate risk Management Information (MI) and metrics and approval of the Climate Change Risk Management Framework (CCRMF) on a triennial basis. The Board has also designated the Chief Risk Officer (CRO) as the relevant Senior Management Function responsible for managing the financial risk of climate change, in line with SS3/19.

ERC, chaired by the CRO, is responsible for managing climate change risk. ERC can recommend proposals to RC for approval, including those concerning risk appetites and risk management actions. ERC reviews the CCRMF on an annual basis. Over the past year ERC has reviewed a number of proposals relating to climate change which have covered: outputs of the physical climate risk stress model which analysed the future flood and subsidence risk of Society assets under multiple time horizons and climate scenarios; a climate change risk appetite statement; and MI on flood/subsidence risk and Energy Performance Certificate (EPC) distributions. On a day-to-day basis, climate change financial risk is managed by the Credit Risk team.

The AC has oversight of external disclosures relating to the Society's management of the financial risks arising from climate change.

Strategy

To address the challenge faced by climate change, the Society has set a number of targets including becoming carbon neutral for direct operations by 2025 and becoming carbon positive by 2050. Monitoring our progress towards these targets enables our climate strategy to evolve, ensuring the Society remains resilient to climate-related risks whilst meeting these environmental targets.

The nature of climate change risk means that unknown risks may begin to crystallise which were not originally anticipated. Risks could manifest along uncertain and/or extended time horizons and are potentially non-linear and irreversible. While the exact outcome is uncertain, there is a high degree of certainty that financial risks from some combination of physical and transition risk factors will occur.

For the Society, examples of these risks include:

Risk category	Risk summary	Significance /Impact[1]	Ability to control[2]	Horizon term risk[3]
Business Risk	'Green' competition in the mortgage lending and retail deposit space.	Low	High	Short
	Increasing frequency of environmental perils could affect the delivery of 3rd party good and services.	Low	Medium	Long
	Increase supply chain costs due to climate related inflationary pressures.	Low	Medium	Medium
Credit Risk	Flood/subsidence risk materialising which impacts property values and subsequent losses to the Society.	Low	Medium	Long
	Higher energy efficiency standards for BTL properties may affect our BTL book and WB Homes book.	Medium	High	Medium
Operational Risk	Business continuity events as a result of increasing frequency and severity of weather events (Head Office, branches, suppliers).	Medium	Medium	Long
	Increased cost base (insurance, energy etc).	Low	High	Medium
	Supplier/third-party operational risk due to climate events, or sourcing of supplies from entities with poor climate change disclosures or strategy.	Medium	Medium	Medium
Market, Liquidity, Funding Risk	Market/liquidity shocks in response to a specific weather event or repricing for new information causing disruption and volatility in specific asset categories, sectors, individual names or regions.	Medium	Medium	Medium
	Retail and wholesale participants only funding/dealing with firms with strong environmental credentials.	High	Medium	Short
	Higher haircuts on Bank of England pledged collateral with low energy efficiency ratings.	Medium	Medium	Medium
	Savings balances eroded to fund, for example property retro-fits or replace income due to a climate related macroeconomic impact.	Medium	Medium	Medium
Conduct Risk	Potential for borrowers with significant uninsurable flood or subsidence risk to become mortgage prisoners.	Low	Medium	Long
	Inappropriate incentives for green products.	Medium	High	Short
	Potential liability and conduct risks from green propositions and assumed advice.	Low	High	Long
Regulatory & Legal	Inadequate or inaccurate climate risk disclosures on past or anticipated events.	Medium	High	Long

[1] Significance/Impact is based on the risk drivers crystallising.

[2] Ability to control reflects the extent of mitigation that can be applied by the Society.

[3] Horizon Term risk is defined by Short (1-2 years), Medium (3-4 years), and Long (5 years or more).

The Society has recognised the potential to offer products that align with the UK's target to reach net zero by 2050 at the latest. The Society has recognised that housing contributes a significant proportion of greenhouse gas emissions, therefore making homes more energy efficient is a critical step towards achieving this target. To support this the Society offers a Green Additional Borrowing product to fund energy efficiency improvements to homes.

The Society has a number of policies and procedures which align with net zero; these are described fully in the Environment section of the Strategic Report. Climate change has impacted lending policies with the Society no longer lending on properties with very high flood risk or low EPC ratings. Climate change risks and opportunities are reviewed annually as part of Board strategy sessions. The financial risks from climate change are assessed annually as part of the Society's ICAAP process; the Society has not yet deemed it appropriate to hold capital against this risk.

The Society's simple business model of savings deposits funding residential lending is resilient to the financial risk from climate change. The outputs of the Society's physical climate risk stress model show very modest losses resulting from future flood and subsidence risk under three climate scenarios as shown below.

To model and predict future climate it is necessary to make assumptions about the economic, social and physical changes to our environment that will influence climate change. Representative Concentration Pathways (RCPs) are a method for capturing those assumptions within a set of scenarios. The conditions of each scenario are used in the process of modelling possible future climate evolution.

The climate change scenarios used in our assessment are the scenarios published by the Met Office as part of UK Climate Projections '09 and UK Climate Projections '18, including RCP 2.6 low emissions scenario and RCP 8.5 high emissions scenarios. Results for a medium emissions scenario are interpolated from the RCP 2.6 and RCP 8.5 results (Figure 1).

Figure 1: Predicted outcomes of Low and High emission scenarios for England and Wales.

Summer rainfall change
For a location in central England
41% drier to 9% wetter
57% drier to 3% wetter
For a location in central Wales
39% drier to 3% wetter
56% drier to 2% wetter

Winter precipitation change
For a location in central England
3% drier to 22% wetter
2% drier to 33% wetter
For a location in central Wales
2% drier to 19% wetter
No change to 29% wetter

Summer temperature change
For a location in central England
No change to 3.3 °C warmer
1.1 °C warmer to 5.8 °C warmer
For a location in central Wales
No change to 3.3 °C warmer
0.9 °C warmer to 5.9 °C warmer

Winter temperature change
For a location in central England
-0.1 °C cooler to 2.4 °C warmer
0.7 °C warmer to 4.2 °C warmer
For a location in central Wales
0.1 °C warmer to 2.4 °C warmer
0.7 °C warmer to 4.1 °C warmer

Low emission scenario (first row of each pair) | High emission scenario (second row of each pair)

As expected, the projections for RCP 2.6 show less global warming than RCP 8.5 (see Figure 1). Similar increases in the global mean surface air temperatures are seen for both emissions scenarios up to around 2040. The projections for RCP 8.5 then increase further whereas RCP 2.6 projections level off from the 2050s onwards.

The Climate Stress Model assumes that the risk of flooding is continuously distributed across all at-risk properties and that as global temperatures increase, the effect is to increase the probability of flooding gradually and uniformly for each property within a given climatological region. This is implemented within the model by assigning a risk to each property as of the 'present' and scaling this risk upwards over time, at a rate set by each climate change scenario. Properties do not transition from 'Low' through 'Medium' to 'High' risk over time, but rather the thresholds for each scenario are adjusted upwards and with it the average likelihood of flooding.

The rate at which flood risks increase over time is taken from the UK 2017 Climate Change Risk Assessment ('CCRA2017'), which forecasts for the UK and its constituent countries and regions the impact of flood damage by 2030, 2050, and 2080. From this information, continuous flood risk scalars have been developed that provide country and region level risk adjustments that have been applied to the risk ratings allowing flood risk to be calculated at a property level for any year between the present and 2090.

Risk management

Risk identification considers at least the following:

- Market-wide risks: These are risks that impact the whole of market rather than just the Society, for example government legislation on energy efficiency or disclosure standards, such as expanding EPC disclosures, which can impact lenders' buy to let (BTL) books. Furthermore, changing climate scenarios, when integrated into physical climate risk stress models, could result in higher future expected credit losses (ECL) on mortgage assets.
- Idiosyncratic risks: Any climate change related risks that are specific to the Society should be identified. This should include a review of relevant Society experience. For example, this includes the risk to the rental income and valuations of WBHL properties due to increasing energy efficiency standards for BTL properties.
- Emerging risks: Where possible, emerging risks should be identified. These will typically be driven by forthcoming changes in the external environment.

Any decisions on how to manage climate change risks consider the following as a minimum:

- Regulatory constraints: Any constraints on the level of risk that may be taken or the type of controls that may be used to manage risk must take relevant regulation, such as SS3/19, into consideration. A review of regulatory material in order to ensure, at a minimum, that all mandatory risks are identified. This review covers all existing regulation and guidance. Climate change risk is a fast changing area both for financial firms as well as regulators so guidance will most likely change at a rapid pace. At a minimum this includes PRA Supervisory Statements; and other best practice contained in PRA/FCA promoted guidance including that of the Climate Financial Risk Forum and the TCFD;
- Proportionality: The PRA expects a firm's response to the financial risks from climate change to be proportionate to the nature, scale, and complexity of its business, as dictated by SS3/19. The Society should therefore take this into account;
- Policy constraints: Only methods permitted within current policies can be used to manage risks exposures. For example, changes to residential security criteria to take account of changing physical and transition risk should be made through changes to the relevant Policy;
- Best practice: The Society should consider whether its approach to managing climate change risks remains appropriate given current industry best practice which continues to be outlined by the Climate Financial Risk Forum. Any proposal to change an approach used must go through the normal governance process; and
- Effectiveness in a stress: The effectiveness of any risk management approach adopted must also be assessed against its performance in a stressed environment. A climate stress event can manifest over a very short or longer time period, often at short notice, e.g. flash flooding. The Society also uses Scenario testing: Risks that can only be identified through scenario analysis, whether in-house or conducted by a third party. This mainly applies to physical risks which will be exacerbated in coming decades by rising global temperatures, but can also apply to the impact of changing energy efficiency standards on the BTL or WBHL books, where it may become apparent through analysis that it is uneconomical for certain properties to be upgraded. Scenario testing will be mindful of the latest PRA scenarios, such as those contained within the Climate Biennial Exploratory Scenario.

The Society has implemented a CCRMF to aid the embedding, management and monitoring of climate change risk. The CCRMF articulates how the Society identifies, measures, manages and monitors the financial risks from climate change.

A risk appetite statement has also been defined for the financial risk from climate change:

"The Society will ensure that the impact of physical and transition risks on its exposures do not give rise to potential losses that threaten its business model or compromise its current or future viability."

Climate change is not considered a Board Principal Risk due to the modest losses resulting from future flood and subsidence risk described above and is a sub-risk under Business Risk, whilst still retaining full Board oversight. In support of this appetite, MI and metrics are presented to RC so that the Society's exposure to physical and transition risk can be tracked and as climate risk evolves, the relevant action can be taken to control.

Metrics and Targets

The Society's exposure to climate risks have been assessed through a series of metrics, and measured against defined targets. Physical risks to mortgaged properties have been quantified by ECLs based on flood and subsidence risk modelling. The EPC ratings of mortgaged properties have been assessed to indicate where transition risk can be mitigated.

Physical Risk metric (Flooding and Subsidence)

Physical risk analysis was completed for the residential mortgage book as of 31 March 2023. The model is designed to calculate the additional ECLs that the Society may incur due to flooding at different time periods in the future under the High, Medium, and Low emission scenarios. Data for flood risk is obtained via 4most Analytics Consulting, who convert the climate scenarios into flood risk impacts for our mortgaged properties. The flood risk analysis includes surface, river and coastal flooding.

The mechanism through which the model translates flood and subsidence risk into additional ECLs is by applying adjustments to the value of the property to reflect the short and long-term costs incurred due to flood and subsidence risk and by assessing the impact of these events on the likelihood of a default occurring. ECLs are calculated that incorporate these effects, compared to a base ECL that assumes no such hazards. This determines for each account the increase in ECL attributable to climate stress.

The Society's physical climate risk modelling yielded the following output with respect to future flood and subsidence risk ECL:

	2023		
	L	M	H
Additional flood risk related expected loss £m	0.12	0.15	0.19

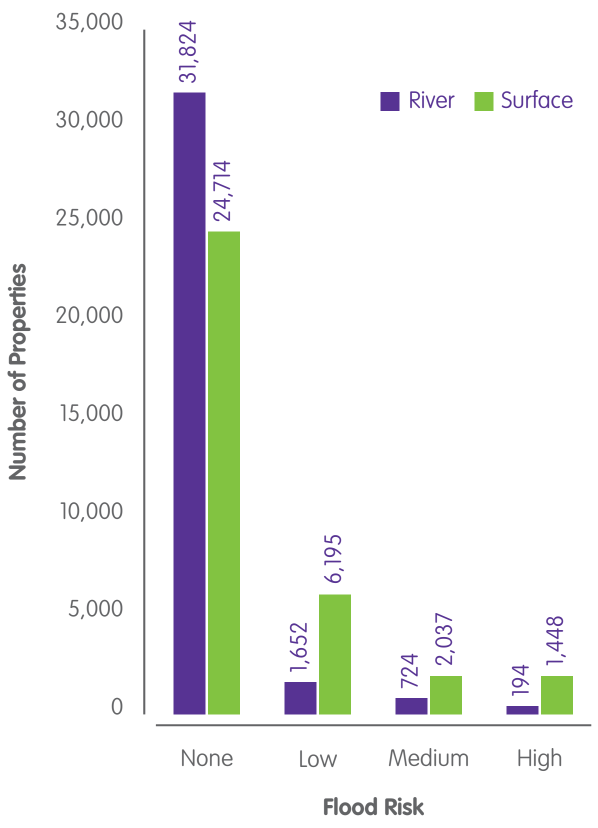
	2027		
	L	M	H
Additional flood risk related expected loss £m	0.22	0.30	0.38

	2050		
	L	M	H
Additional flood risk related expected loss £m	0.28	0.41	0.56

	2080		
	L	M	H
Additional flood risk related expected loss £m	0.33	0.53	0.73

Flood risk ECLs are modest, even under the High emissions scenario, compared to the Society's residential provisions.

Distribution of Risk - England & Wales



The Society will continue to monitor the outputs of the climate model and will consider mitigating actions if future losses increase to material levels.

Transition Risk metric (EPC)

The Society currently has an average EPC rating of D across the residential mortgage book with the following describing the EPC rating distribution:

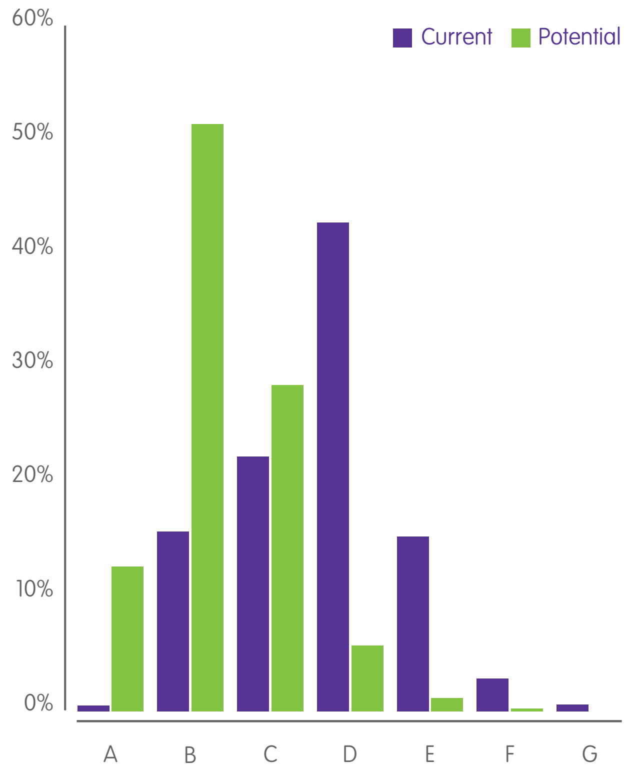
	Current EPC Rating		
EPC Rating	Total	Owner Occupied	Buy to Let
A	0.2%	0.3%	0.0%
B	12.3%	15.8%	5.3%
C	24.6%	22.2%	29.4%
D	44.9%	42.8%	49.2%
E	15.1%	15.5%	14.2%
F	2.3%	2.7%	1.5%
G	0.5%	0.6%	0.3%
Average	D (64)	D (64)	D (64)

	Potential EPC rating		
EPC Rating	Total	Owner Occupied	Buy to Let
A	9.1%	12.7%	2.0%
B	48.4%	51.4%	42.4%
C	30.5%	28.5%	34.6%
D	10.2%	5.9%	18.7%
E	1.5%	1.2%	2.2%
F	0.2%	0.2%	0.2%
G	0.0%	0%	0.0%
Average	B (81)	B (81)	B (80)

EPC ratings have been gathered from the publicly available EPC Register and matched to the Society's mortgage book. In addition, an exercise to model the likely EPC rating of properties without one has been undertaken. The Society currently has a match rate of 80%, which supported by modelled data increases the understanding to 84% of the portfolio.

This data has enabled the Society to visualise the potential EPC ratings of the residential mortgage book if energy efficient measures are introduced to increase the EPC rating of the existing housing stock:

Current vs Potential EPC rating



The Society is committed to achieving an average EPC Rating of C across our residential mortgage book (owner occupied and buy to let) by 2028.

Operational Emissions

To reduce the carbon emissions of our operations, the Society now uses green energy with all energy across Head Office and the branch network generated by renewable sources (electricity and gas). In addition, the Society's owned vehicle fleet comprises of all electric vehicles.

The Society currently measures its energy usage under the Streamlined Energy & Carbon Reporting (SECR), as implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018:

	tCO_2 (tonnes) p.a.			
	2019-20	2020-21	2021-22	**2022-23**
Scope 1				
Buildings natural gas	136.3	241.9	223.7	**179.7**
Transport (owned)	92.7	24.3	29.4	**40.2**
Scope 2				
Buildings electricity	593.5	552.3	473.4	**403.6**

The Society is committed to become carbon neutral for all operations under our direct control by 2025 and aspires to being carbon positive (removing more carbon than we use) by 2050.

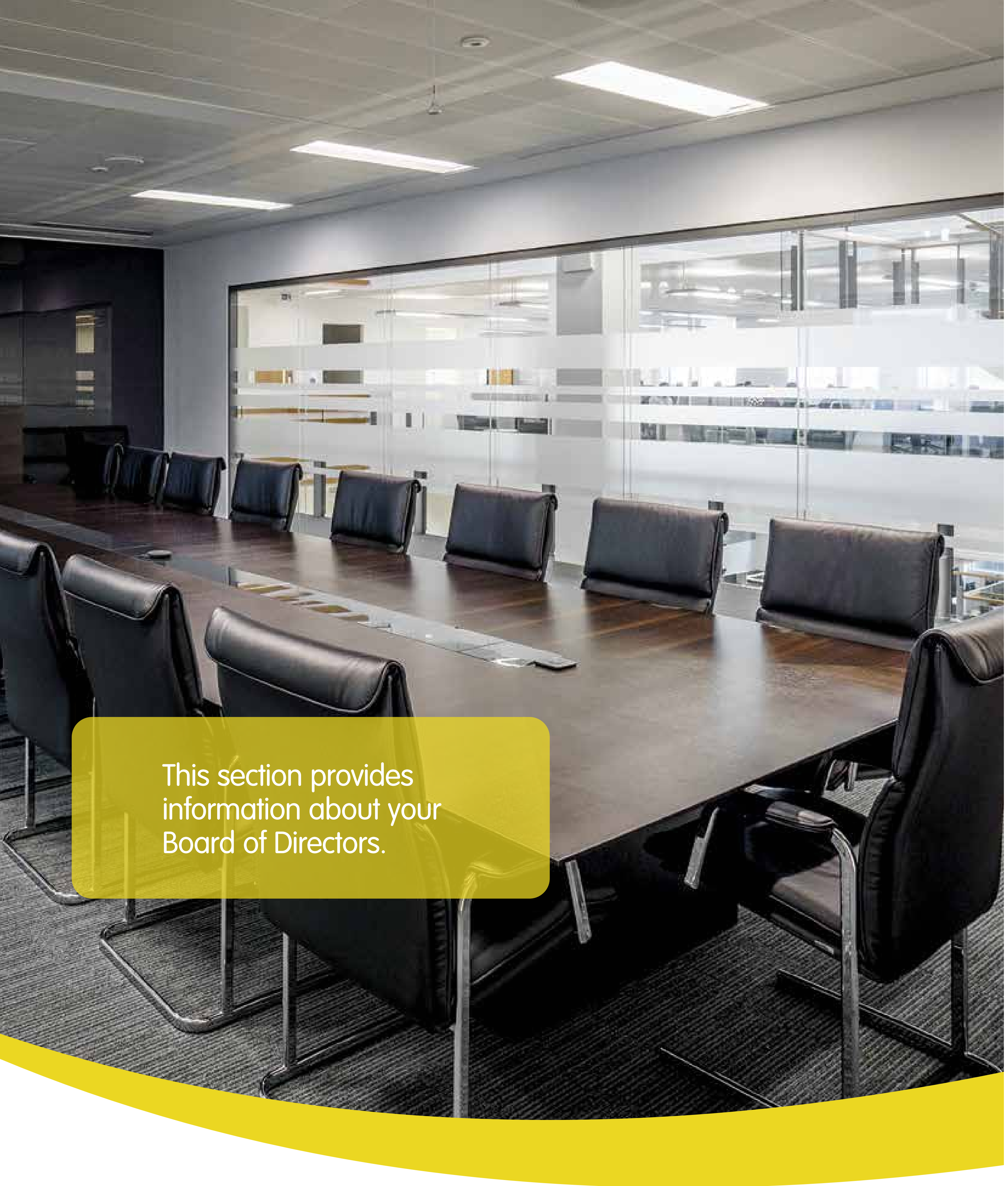
Principal risks and uncertainties

Set out in the following table are the Board's principal external threats which have been identified by RC, along with the Society's responses and mitigants in place.

Risk category	Principal external threats	Society response and mitigants
Business risk	Adverse changes to the operating environment arising from the general uncertainty in the UK economy, due to the ongoing disruption caused by COVID-19, heightened geopolitical risks and ongoing cost of living crisis leading to: • Higher inflation resulting in Bank Rate increasing towards 5%; • Declining consumer confidence resulting in reduced activity in the housing market and adverse impact from both lower lending and a potential fall in house prices; • Elevated competition in the mortgage market and rising cost of retail funding; • Flat or declining economic growth and associated rising unemployment causing possible recession; and • Increasing regulatory costs.	Business plans continue to model the impact of a range of scenarios and stress tests, which have been expanded to include potential macroeconomic impact of rising central Bank Rates to respond to higher inflation due to global supply chain issues and rising energy costs. This is reflected within the IFRS 9, ICAAP and ILAAP assessments. These outcomes have Board visibility and are reviewed by a number of risk management committees. These Scenario and Stress Tests are complemented by Reverse Stress Testing to identify the circumstances that put the Society into an unviable position, i.e. capital and/or liquidity falls below minimum regulatory requirements. The Society is based in the UK and has no EU operations limiting its exposure to Brexit related operational risks.
Credit risk	Higher unemployment as a result of self-employed/wider business insolvencies and/or an increase in Bank Rate (leading to increased arrears and losses).	The Society's IFRS 9 provisioning and stress testing models assume a range of unemployment levels and varying interest rate scenarios, including a stressed outcome. Should an increase in arrears accounts occur, the Society would expand its credit services resource.
	Reduction in property prices (leading to a higher incidence of voluntary possessions and elevated shortfalls when properties sold).	The Society is committed to work with its borrowers across a range of forbearance options to avoid possession wherever possible. In the event that possessions were to increase, the Society's regular reviews of its IFRS 9 provisions would reflect this increase. Mortgage Indemnity Guarantee insurance is obtained on lending originated at above 80% Loan to Value to mitigate potential losses.
	Low or flat economic growth combined with higher inflation (leading to further commercial property/BTL tenant failures).	The Society has a well-resourced and highly experienced team dealing with commercial property and BTL mortgages and, as has been the case throughout the year, works with borrowers and agents to lessen the impact.
Capital risk	Rules for calculating capital (amount required and/or amount held) are changed.	Maintain regular dialogue with the regulator and ensure full understanding of and compliance with the relevant rules.
Liquidity risk	Intensification of competition for retail and wholesale funding. Following the failure of US mid-size banks, rules for calculating liquidity (amount required and/or amount held) are changed.	The Society continues to demonstrate the ability to attract new retail deposits this year and the focus has been on fixed rate funding. The Society also has access to a diverse range of other funding sources, including wholesale options and funding provided through the Bank of England's Sterling Monetary Framework. Scenario and Stress testing is undertaken to assess the requirements over a number of different time horizons. This is also complemented by Reverse Stress Testing to identify the circumstances that puts the Society into an unviable position, i.e. liquidity falls below minimum regulatory requirements.
Margin compression risk	Reduction in returns from residential tracker mortgage assets whose rate is linked to Bank Rate with no floor.	The Society does not originate any new residential tracker mortgages and is managing down its Bank Rate Tracker book, replacing this with administered rate, or SONIA-linked assets.

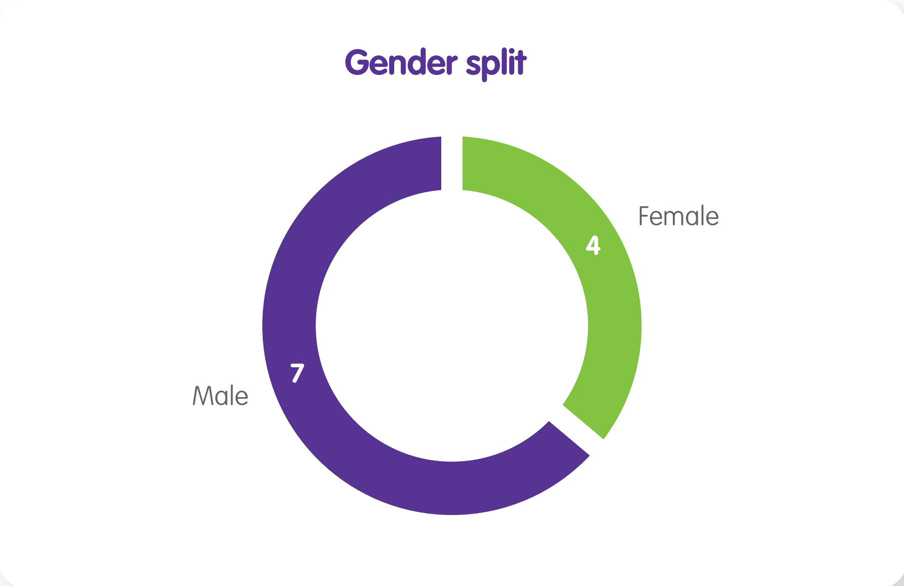
Risk category	Principal external threats	Society response and mitigants
Margin compression risk (continued)	A relative increase in funding costs affecting variable rate retail funding, and in particular the administered rate retail balances.	The Society has embedded into the Risk Management Framework, a Margin Compression Stress (MCS) model. The MCS model quantifies what could happen to Net Interest Margin (NIM) following an increase in funding costs exclusively outside of other benchmark rates (Bank Rate and SONIA) and returns earned on existing mortgage assets (which are mostly linked to benchmark rates through swaps).
Market risk	The risk of a reduction in the Society's net interest margin as a result of rising competition amongst deposit takers.	The Society operates within Board approved limits and monitors the exposure to increases in funding rates through ALCo.
	Falling HPI, leading to a reduction in the book value of WBHL properties.	No new homes have been added, containing the exposure and properties continue to be sold where appropriate.
Operational risk	Single points of failure are identified, potentially impacting on critical and Important Business Services.	The Society maintains an operational resilience framework to prevent, adapt, respond to, recover, and learn from operational disruptions. Scenario analysis is also undertaken.
	A significant business continuity event.	Detailed business continuity plans are in place, which are regularly tested and supported by scenario testing.
	Investment in core technology introduces execution risk with the benefits being delayed or not delivered.	The Society has a robust change management framework in place with regular updates provided to the Board.
	Insurance arrangements do not sufficiently cover an event (requiring the Society to pick up the cost).	The annual review of insurance arrangements is based on advice from brokers and an annual benchmarking exercise.
Information risk	One or more of the Society's IT systems are attacked for the purposes of financial gain, theft of data or to cause the Society disruption or negative exposure and threaten the security of members' information, and the availability of the services offered to them. Cyber attacks remain a significant risk for financial institutions.	The Society recognises the need to maintain and develop its defences and responses in this area in order to protect the Society and maintain the trust of customers and the confidence of regulators. The RC is kept updated as to the maturity of the Society's cyber defences and controls and a Chief Information Security Officer has been recruited to develop these further.
Pension liability risk	Increased longevity, poor or volatile returns on scheme assets such as equities, gilts or bonds linked to long-term interest rates (requiring the Society to contribute more to the scheme).	The Defined Benefit Scheme is closed to new members and existing members are no longer accruing service benefits. The Scheme is subject to an actuarial review every three years to calculate the current position (surplus/deficit) and was finalised during the year. The Society has agreed a recovery plan with the Trustee Board which will see the current deficit closed within an appropriate timeframe set out by the pension regulator. The Scheme's investment advisors provide support on the strategies for the Scheme to the Trustee Board which aims to fulfil future funding requirements of the Scheme, as well as hedging interest rate and inflation risks to protect the pension liabilities against market volatility.
Retail conduct risk	Actions of third party and outsourced suppliers leading to adverse customer outcomes.	A robust supplier framework is in place to oversee the activities of key suppliers. The conduct risk appetite metrics monitoring is reported to RC.

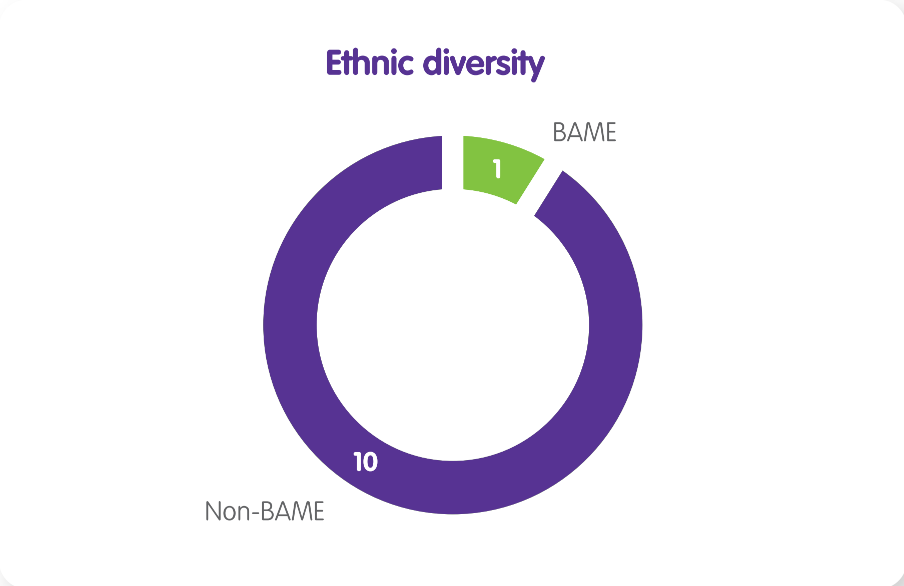
David Thomas
Chair of Risk Committee
31 May 2023

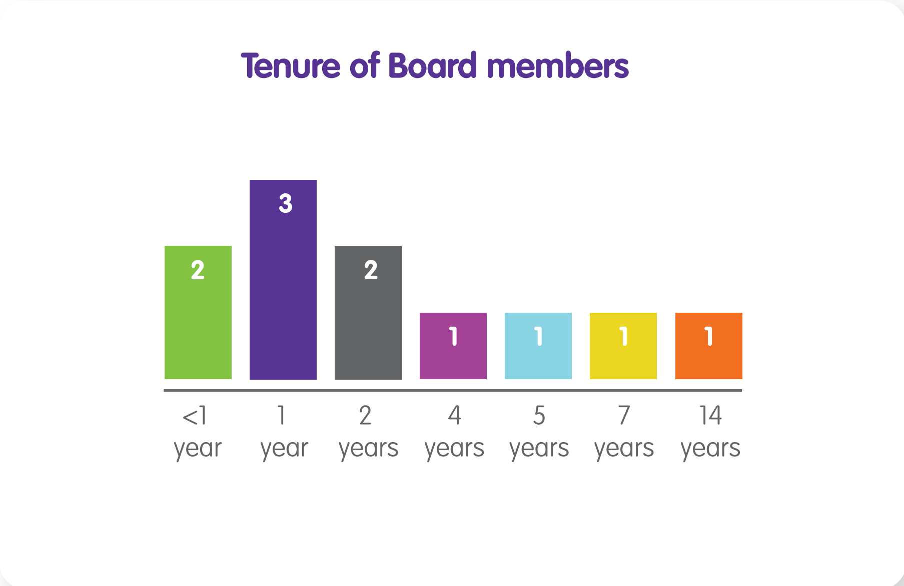


Board of Directors

Board composition







Board of Directors

John Maltby MBE

Chair of the Board Appointed January 2021

John is an experienced Board member in Financial Services as well as with public, private, not-for-profit and private-equity owned businesses. John also has experience in chairing purpose-led organisations – having been Chair of Good Energy for over six years. He is currently Chair of Allica Bank, Non-Executive Director of Nordea Bank and Chair of Max Nicholas Renewables, a developer of an innovative turbine for hydro and tidal energy. John was previously on the Board of Trustees for the National Citizens Service Trust, a not-for-profit organisation founded to help young people achieve their potential, and in recognition of this role was awarded an MBE in the 2022 Queen's Birthday Honours list. He was elected Chair of the Society's Board in 2021 and is also Chair of the Nominations Committee and a member of the Remuneration Committee.

"I believe companies should strive to improve the lives and prospects of their customers and their colleagues. As a mutual, the West Brom is a wonderful example of an organisation that delivers in this regard and has done throughout its long history. I am proud to be part of the Board that serves and supports our current and future members and colleagues."

Julie Hopes MBA, ACIB

Senior Independent Director and Deputy Chair Appointed April 2016

Julie has many years of experience in retail financial services, with a particular focus on general insurance. An Associate of the Chartered Institute of Bankers, she has Non-Executive Director roles with Saga plc where she is Chair of the Saga plc Risk Committee and Chair of Saga Services Ltd and with MS Amlin Underwriting Limited where she is Chair of the Risk Committee. Julie chairs the Society's Remuneration Committee and is a member of the Nominations and Audit Committees.

"I joined the West Brom because I believe in mutuals - businesses owned by and run in the interest of their members. I've stayed with the West Brom for the last seven years because it puts its members and the local community at the heart of its decision making. I bring broad experience of retail financial services and in particular a strong focus on customer service, change and operational management. I am proud to be part of the West Brom."

Martin Boyle BSc, M.Phil (Cantab.)

Chief Operating Officer Appointed April 2023

Martin joined the Board and the Society in April 2023 in the newly created role of Chief Operating Officer. Martin is an experienced change and operations leader with extensive retail banking expertise, most recently as Chief Transformation Officer at Metro Bank Plc, sat on the Group Executive Committee. He has previously held senior roles at Nationwide and Portman building societies, Visa Europe and Accenture.

Martin has significant expertise leading transformational programmes and portfolios, running scale operations and is responsible for leading the modernisation and digitisation of the Society's infrastructure and operations, to better serve our Purpose-led member strategy. Martin is a member of the Executive Committee and Executive Risk Committee.

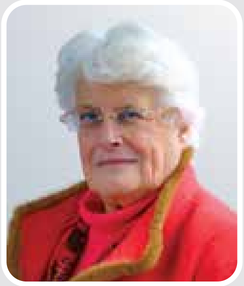
"I believe the mutual sector is a vital part of our society. It has been helping people get the home of their dreams and make the most of their income for over 170 years. Personally, I want to ensure the Society is fit for the future and can serve our members in ways that best suit them. That is why I am proud to be part of the Society team and the wider building society movement."

Dave Dyer BA Hons. (Cantab.), MBA, FCMA

Non-Executive Director Appointed September 2021

Dave joined the Board on 1 September 2021 and has many years' experience in the retail banking sector. Prior to taking on the Non-Executive Director role at the West Brom Dave was one of the founding members of Snoop – an app to consolidate finances in one place allowing customers to see benefits (e.g. savings on bills). Previous to this Dave worked as Chief Financial Officer at Virgin Money Holdings (UK) plc and Finance Director, Mortgages at Royal Bank of Scotland. Dave is a member of the Society's Audit and Risk Committees.

"For me joining the West Brom was driven by two 'Ps' – good People, with a good Purpose. Many organisations talk about putting the customer first – at the West Brom I see it unswervingly put into practice by a team dedicated to their members, their colleagues, and their communities."



Anne Gunther BSc, MBA, ACIB, FSCIB

Non-Executive Director Appointed November 2021

Anne is a highly experienced non-executive director with more than 10 years' experience as a Board member in public and private companies spanning retail financial services, insurance, wealth management, savings and lending. Anne is a Non-Executive Director at Mattioli Woods Plc where she is Senior Independent Director and chairs the Audit Committee. Anne is a member of the Society's Remuneration and Risk Committees.

"Throughout my career I have worked at senior levels within major public companies and mutual firms, with a top up of NHS, charity and university governance. Hence I continue to compare and contrast that which gives the best balance between all stakeholders and particularly for customers. The West Brom represents building societies at their very best: a good understanding and response to the commercial realities in a highly competitive world with nevertheless the expertise to maintain a key focus on our customers including those that others find difficult to support. That's why I'm a proud member of the team."

Manjit Hayre

Chief Risk Officer Appointed September 2021

Manjit was appointed to the Board in September 2021 having joined the Society in 2006. Prior to this, Manjit was at the Britannia Building Society for five years and has over 30 years of financial services experience, having started his career at NatWest Mortgage Services, and in risk related roles since 1993. Manjit chairs the Society's Executive Risk Committee and is a member of the Executive Committee and Assets & Liabilities Committee.

"Having worked in mortgage related financial services for over 30 years, the last 20 or so has afforded me the opportunity to see first-hand the benefits of mutuality for a Society's members and this ethos is closely aligned to my personal values. Being born and living locally in the heartlands of the Black Country and West Midlands, I am proud to be part of a team that puts its members' interests and supporting local communities at the heart of everything the West Brom does on a daily basis."

Victoria Mitchell LLB (Hons)

Non-Executive Director Appointed April 2018

Victoria joined the Board on 1 April 2018 and is a legally trained businesswoman who brings to the West Brom a broad experience across operations and risk within the financial services sector. Prior to taking on the Non-Executive Director role at the West Brom, Victoria held the position of Chief Operating Officer at Capital One Europe plc. Victoria is a Non-Executive Director at N Brown Group plc, where she is the Chair of the Financial Services Board and a member of the Audit and Risk and Nominations Committees. Victoria is a member of the Society's Remuneration and Risk Committees.

"I have been with the West Brom for five years and in that time I have seen the passion everybody has about doing the right thing for our members, putting customers at the heart of everything we do. I am proud to be part of a team dedicated to excellent customer outcomes and the support provided to the communities we serve."

Alex Pawley BSc, FCA

Chief Financial Officer Appointed January 2023

Alex joined the Board in January 2023 having been the Society's Divisional Director for Treasury & Finance since 2020. Alex joined the West Brom in 2016 from Deloitte where he qualified as a Chartered Accountant and specialised in the financial services sector, working with a host of banks, building societies and specialist lenders. Alex chairs the Society's Assets & Liabilities Committee and is a member of the Executive Committee and Executive Risk Committee.

"I believe strongly in the Society's values as a truly mutual and Purpose-led organisation, and am proud to see our teams put these into practice every day. In my role as Chief Financial Officer I lead our Finance and Treasury teams and my priority is to safeguard the Society's strong financial position whilst ensuring we maximise the value and benefits for our members, both current and future."

Lynne Shamwana BA, FCA

Non-Executive Director Appointed February 2019

Lynne previously held the position of Chief Financial Officer at Virgin Care and before that Global Finance Director of Christie's, the international art auction house. She has held a variety of senior finance and management roles at Centrica plc, British Gas, Goldfish Bank plc and Alliance & Leicester plc. Lynne is a Director and Chair of the Audit Committee of Antin Infrastructure Partners and a Director and Governor of the Southbank Centre. She is a fellow of the Institute of Chartered Accountants in England and Wales. Lynne chairs the Society's Audit Committee and is a member of the Nominations and Risk Committees.

"I started my career in a mutual building society and I believe passionately that there needs to be real choice for customers. I was delighted to be invited to join the West Brom Board and chair the Audit Committee so I can play my part in ensuring its future success. I am proud that at the West Brom colleagues feel cared for and everyone strives to put our members and customers at the heart of everything we do."

David Thomas MSc, ACIB, FIB (Ireland)

Non-Executive Director Appointed August 2020

David joined the Board on 1 August 2020. He brings a wealth of experience in general management, risk management, internal audit and regulatory activities. David's previous roles include Chief Risk Officer at SMBC, EMEA Region, Chief Risk Officer at RBS Plc, Corporate Banking Division and the Managing Director responsible for Ulster Bank's Corporate and SME business on the Island of Ireland. David is a member of the Society's Audit and Remuneration Committees and Chair of the Risk Committee.

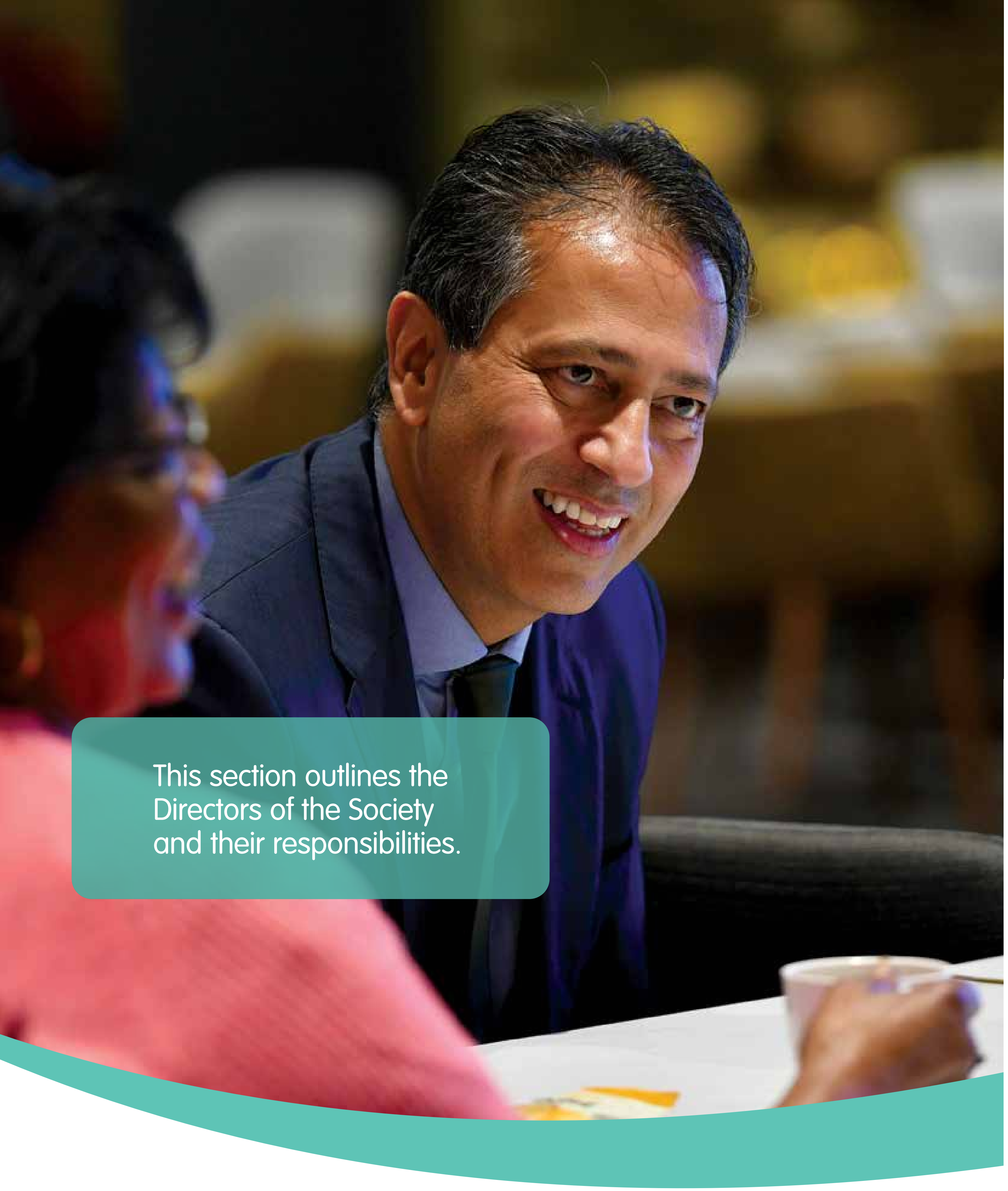
"I joined the West Brom because it was clear to me that it puts its members first and is always looking to do the right thing for its members. Having been on the Board for almost three years now I am also impressed by the ethical approach it takes, led by a strong and professional team."

Jonathan Westhoff BA (Hons) Financial Services, FCMA, CGMA, ACIB

Chief Executive Officer Appointed May 2009

Formerly the Society's Group Finance Director and Deputy Chief Executive, Jonathan was appointed as Chief Executive Officer in May 2011. After 17 years with Barclays Bank, he moved into the mutual sector in 2000, serving as Finance Director at Portman and Newcastle building societies. He chairs the Society's Executive Committee, the Member and Employee Councils, and is a member of the Assets & Liabilities Committee. Jonathan is also a past Chair of the Building Societies Association.

"Having spent nearly 23 years in the building society sector, the last 14 at the West Brom, my passion for mutuality and the benefits we bring to our members, as well as the communities we are part of, is stronger than ever. It is our members and my colleagues that make the West Brom a building society that I am immensely proud to be part of."



This section outlines the Directors of the Society and their responsibilities.

Directors' Report

The Directors are pleased to present their Annual Report, together with the audited Accounts, for the financial year ended 31 March 2023.

Business objectives

The main purpose of the Society and its subsidiaries (the Group) is to work together to meet the prime financial needs of our members. This entails provision of a range of personal financial products, offering competitive pricing and excellent service.

Business review

The Group's business and future plans are referred to in the Chair's Statement on pages 2 to 3, the Chief Executive Officer's Review on pages 4 to 7 and the Strategic Report on pages 8 to 33.

Key performance indicators

The Board measures performance against its strategic aims by reference to a number of key performance indicators which are described in the Strategic Report on pages 8 to 33.

Profit and capital

Profit before tax (on continuing operations) was £31.8m (2021/22: £23.2m). The capital position is set out in the Strategic Report on pages 8 to 33 and the Annual Business Statement on page 169. Detailed Pillar 3 capital disclosures for the current year are available on the Society's website.

Country-by-country reporting

Information in respect of the Capital Requirements (Country-by-Country Reporting) Regulations 2013, is provided on page 166.

Risk management

As the Society operates in a very competitive environment, the management of risk and development of a suitable strategy are critical activities in achieving business success.

The Board and the Board Committees ensure that risk management and strategic direction are considered regularly and that appropriate actions are implemented. These considerations are detailed in the Society's Internal Capital Adequacy Assessment Process (ICAAP) document.

The principal risks inherent to our business and details of how these risks are managed are set out in the Risk Management Report on pages 34 to 47.

In addition to these principal risks there are, as a result of the economic environment for banks and building societies, ongoing actions under the PRA's supervisory review process, which include extensive stress testing exercises. The Directors are aware, in arriving at their judgements, that the Society will be subject, in the same way as others within the sector, to these ongoing tests of capital and recognise the uncertainty inherent in the process as factors within each test change.

Financial risk management objectives and policies

The Board's objective is to minimise the impact of financial risk upon the Society's performance. Financial risks faced by the Society include interest rate, credit and liquidity risks. The Board manages these risks through a risk management framework, Board policies and its Treasury and Credit Risk functions. Governance and oversight is provided through the Risk and Assets & Liabilities Committees. Details of the Society's financial instruments, hedging activity and risk mitigation can be found in note 12 and notes 33 to 35 to the accounts.

Mortgage arrears

At 31 March 2023 there were 39 residential and 5 commercial mortgage accounts (2021/22: 42 residential and 5 commercial mortgage accounts) where payments were 12 months or more in arrears based on current monthly repayments.

The total amount outstanding on these accounts was £69.5m (2021/22: £79.8m), of which £67.3m (2021/22: £76.6m) related to commercial mortgage accounts. The total amount outstanding represented 1.47% (2021/22: 1.58%) of mortgage balances. The amount of arrears was £12.4m (2021/22: £14.6m), relating primarily to commercial mortgage accounts. Appropriate provisions were made for potential losses on mortgages in accordance with the provisioning policy set out in note 1 to the accounts.

Directors

The following served as Directors of the Society during the year:

Julie Hopes

Victoria Mitchell

Ashraf Piranie* (stepped down 31 December 2022)

Lynne Shamwana

Jonathan Westhoff*

David Thomas

John Maltby (Chair)

Dave Dyer

Anne Gunther

Manjit Hayre*

Alex Pawley* (appointed 1 January 2023)

* Executive Directors.

All Directors are members of the Society. None of the Directors have, at any time in the year or as at the year end, held any beneficial interest in shares or debentures of any associated body of the Society.

Supplier payment policy

The Society's policy is to agree the terms of payment before trading with the supplier and to pay in accordance with its contractual and other legal obligations. At 31 March 2023, the creditor days figure was 26 days (2021/22: 28 days). This conforms with the aim of paying creditors promptly.

Charitable donations

The Society raised significant sums through its community programme, affinity accounts and voluntary staff initiatives. These are outlined in the Sustaining our Society section of the Strategic Report. The Society also donated £1,645 (2021/22: £1,811) to its long-term partner, Barnardo's as a result of the number of votes received at the AGM in 2022.

No donations were made for political purposes. While encouraging any employees who wish to take part in community affairs, the Group does not support any employees in the pursuit of political activity.

Employees

The Society is an equal opportunities employer and gives proper consideration to all applications for employment with regard to vacancies that arise and to the applicant's own aptitude and abilities, regardless of race, creed, gender, sexual orientation, marital status, age, physical or mental disability. If current staff members become disabled, every effort is made to enable them to maintain their present position or to receive relevant retraining.

The Society was one of the first signatories to the Women in Finance initiative, which is a government sponsored initiative to increase the numbers of female staff in financial services. The Society produced a diversity strategy during 2017 to increase its representation of people from all backgrounds.

The Society consults with the West Bromwich Building Society Staff Union and assesses the results of staff surveys to ensure that staff conditions and workload are maintained at an acceptable level. Additionally, details of meetings, team briefings, circulars and information updates are placed on the Society's intranet to ensure that employees are aware of the Society's objectives and performance and conscious of the wider financial and commercial environment in which the Society operates.

Health and safety

The Society sets high standards to maintain the health and safety of all staff, customers and those affected by any of its operations.

The Society is committed to ensuring that all employees receive adequate training in health and safety to make them aware of their individual responsibilities to enable them to carry out their work without injury or damage to the health of themselves or others affected by their work. All employees, on commencing employment with any business area, receive induction training which is reinforced through regular testing. Additional training is delivered when a need has been identified, such as Manager Training, Stress Awareness, Manual Handling, Fire Warden, First Aid etc.

The Society recognises the need to consult with its employees on health and safety issues. Accredited safety representatives are afforded every opportunity to effect this consultation and to receive training. A Health and Safety Committee is in place with representatives from across the business which usually meets every six months to review health and safety.

Health and safety issues are brought to the attention of all employees through business specific communication channels. Employees are similarly encouraged to raise issues through their line management.

During the reporting year no enforcement notices were issued against the organisation by any of the enforcing authorities and no proceedings were instigated against the Society for breaches of health and safety regulations within the reporting period.

Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that law they are required to prepare the Group Annual Accounts in accordance with applicable International Financial Reporting Standards (IFRS) as set out in note 1 to the accounts and applicable law and have elected to prepare the Society Annual Accounts on the same basis.

The Group and Society Annual Accounts are required by law and IFRS to present fairly the financial position and the performance of the Group and the Society; the Building Societies Act 1986 provides, in relation to such Annual Accounts, that references in the relevant part of that Act to Annual Accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Society Annual Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with the standards set out in note 1 to the accounts;
- assess the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

In addition to the Annual Accounts the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group and Society.

A copy of the Annual Accounts is placed on the Society's website.

Directors' statement pursuant to the Disclosure and Transparency Rules

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware:

- the financial statements, prepared in accordance with IFRS as set out in note 1 to the accounts, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the management reports in pages 8 to 47 include a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group and Society in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern and business viability

The Directors' responsibilities in respect of going concern are set out below. In addition, the Directors have elected, with regard to the UK Corporate Governance Code, to publish a business viability statement which states whether there is a reasonable expectation the Society and the Group will be able to continue in operation and meet their liabilities as they fall due. The period assessed under the business viability statement is required to be significantly longer than the minimum period of 12 months over which going concern is assessed.

Directors' responsibilities in respect of going concern

In preparing the financial statements the Directors must satisfy themselves that it is reasonable for them to conclude it is appropriate to adopt the going concern basis. The Group meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Review on pages 4 to 7 and the Strategic Report on pages 8 to 33. The financial position of the Group, its capital structure and risk management and control processes for managing exposure to credit, market, liquidity and operational risk are described in the Strategic Report on pages 8 to 33 and the Risk Management Report on pages 33 to 47.

In addition, note 12 and notes 33 to 35 to the Accounts include further information on the Group's objectives, policies and processes for managing its exposure to liquidity, credit and interest rate risk, details of its financial instruments and hedging activities.

The Group's forecasts and projections, taking account of possible changes in trading performance and funding retention, and including stress testing and scenario analysis, show that the Group will be able to operate at adequate levels of both liquidity and capital for the planning period.

Furthermore, the Group's capital is in excess of the PRA minimum requirement under each of the scenarios considered. Scenarios considered continue to include the impacts of high inflation and the potential for recession and the current geo-political situation in Ukraine. Stresses consider both financial and operational stresses.

After making enquiries the Directors are satisfied that the Group has adequate resources to continue in business for the next 12 months and that, therefore, it is appropriate to adopt the going concern basis in preparing the Annual Accounts.

Business viability statement

The Directors have assessed the viability of the Group over a longer period than the 12 months required by the 'going concern' provision noted above.

The Directors' assessment is based on a robust review of the Group's principal risks, the Medium Term Plan (MTP) and the risk management framework including risk appetite and risk culture described within the Risk Management Report. This assessment is further supported by the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Reverse Stress Testing, Recovery Plan and Resolution Pack.

The assessment covers a period of three years as this is within the period covered by the Group's MTP, ICAAP, ILAAP and regulatory and internal stress testing. The time period chosen reflects the consideration that the level of uncertainty relating to the assessment increases the longer the period chosen. The pace of change of the economic, market and regulatory environments in which the Group operates may undermine the reliability of longer forecasts.

The MTP projects the Society's ongoing financial performance, capital and funding positions as satisfactory to the end of the three year plan period even in a range of adverse scenarios. Inherent uncertainty with regard to a number of factors, including geo-political, economic and regulatory, inevitably increases over the planning period.

Scenarios tested showed that the Society would be able to maintain viability over the three year period under assessment, after taking account of the actions available to management including where appropriate actions undertaken by government to support the economy to mitigate the impacts on capital and liquidity in such scenarios.

Through the ICAAP the Society models the impact of the Bank of England's Annual Cyclical scenario on the Society's Capital position, throughout which a surplus over Total Capital Requirements is maintained. The impact of the Annual Cyclical scenario is more severe than that anticipated in the current economic climate even after accounting for the high levels of inflation and uncertainty over the situation in Ukraine.

Subject to the uncertainty in the outer years noted above and based upon the assessment set out above, the Directors therefore have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2026.

Auditors

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office. In accordance with Section 77 of the Building Societies Act 1986, a resolution for its re-appointment will be proposed at the Annual General Meeting.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

By order of the Board

John Maltby
Chair
31 May 2023

Directors' Report on Corporate Governance

As Chair of your Board and I am pleased to present to you the Society's report on Corporate Governance.

The Board is committed to high standards of corporate governance and believes they are central to the Society's culture and values.

The widely accepted articulation of good practice is the UK Corporate Governance Code (the Code) and this Report has been prepared in accordance with the Principles of the Code. Whilst the Society is not required to comply with the Code, as it applies to publicly listed companies only, where it is considered relevant, the Society does have regard to its Principles. This Report details the Society's approach to corporate governance and, where different to relevant Code Principles, explains why this is the case.

For the financial year ending 31 March 2023 the Society met with all the main Principles of the Code with one exception and that was the decision not to conduct a Board Effectiveness Review within this financial year. An explanation of this decision is provided on page 63.

The 2018 Code's Main Principles	What the Society does to meet the Principles
Board Leadership and Company Purpose A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	The principal functions of the Society's Board include: • Providing entrepreneurial leadership; • Setting the Society's strategic aims and risk appetite; • Implementing and maintaining a framework of prudent and effective controls, which enables risk to be assessed and managed; • Ensuring the necessary financial and human resources are in place for the Society to meet its objectives; and • Reviewing management performance. The Board meets as often as is necessary to fulfil its responsibilities. During the last financial year the Board met on 9 occasions. Details of Director attendance at Board and Committee meetings can be found in the table at the end of this Report. The minutes of Board and Committee meetings record all material discussion and challenge, and are circulated to all Directors. The Chair of each Committee reports to the subsequent Board meeting the key matters discussed. A schedule of matters reserved to the Board is maintained and kept under regular review. The Board is supported by a number of Committees each with Board approved terms of reference. Details of the membership of those Committees and their key activities are reported elsewhere in this Report and Accounts. As a mutual, the Society does not have shareholders but is owned by its members; the Society seeks feedback from members in a number of ways, including: • Customer Panel to canvass views on products and services and give feedback on how the Society can improve the way it operates; • Member Council. A consultative group comprising of West Brom members whose purpose is to articulate their views as a member of the Society back to the Society's Board and Senior Leadership Team on specific Board and Society matters; • Members' ViewPoint events held around the branch network; • Assessing enquiries from the Society's contact centre and website; • Analysing the quantity and nature of customer complaints; • Customer research on specific topics; and • Customer satisfaction surveys. Every member of staff has direct access to the Chief Executive Officer by either email, phone or face to face. In addition, the Society has an 'Open Door' ("Whistleblowing") Policy which provides staff who may have serious concerns about any aspect of the Society's work, the ability to come forward and voice those concerns rather than overlooking a problem. This process provides the opportunity for staff to leave an anonymous message on a dedicated phone line. This policy has taken account of the Public Interest Disclosure Act 1998. During the year, the Audit Committee received a report summarising incidents of whistleblowing. The report was fully investigated but did not indicate any possible improprieties of financial reporting or other issues covered by the Public Interest Disclosure Act 1998.

The 2018 Code's Main Principles / What the Society does to meet the Principles

Division of Responsibilities

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all NEDs, and ensures that directors receive accurate, timely and clear information.

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

NEDs should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

What the Society does to meet the Principles

The role of the Chair includes establishing and developing an effective Board to provide support and constructive challenge to the management team.

The main responsibilities of the Chair are:

- Establish and develop an effective Board, including succession planning, recruitment and appraisal of Non-Executive Directors (NEDs);
- Lead the Board as a team;
- Ensure that the Board has agreed clear values and guiding principles;
- Plan and manage the Board's business, including ensuring that appropriate committees are established with the right objectives and membership and that the Board has the right agenda and information;
- Ensure that the Board has established key priorities;
- Maintain and develop a productive and open relationship with the Chief Executive Officer, agree the Chief Executive Officer's objectives and carry out regular appraisals. The Chair is responsible for leading the appointment process for the Chief Executive Officer;
- Ensure there are appropriate arrangements for the evaluation and remuneration of senior executives;
- Act as an accountability focus for the Society, including chairing the Annual General Meeting;
- Represent the Society with Regulators and ensure that there is an open and trustworthy relationship; and
- Ensure that the Board and its Committees periodically evaluate their own performance.

The Board has satisfied itself that, both at the time of his appointment and during his tenure, the Chair was independent in character and judgement and met the independence criteria set out in the Code.

The Chief Executive Officer has overall responsibility for managing the Society and implementing Board agreed strategy.

Board and Committee composition is kept under regular review by the Chair and the Nominations Committee to ensure that it is of appropriate size, mix of Executive and NEDs and has the right skills and experience to oversee the Society's business activities.

The positions of Chair and Chief Executive Officer are held by different people.

The letter of appointment for NEDs sets out that at least 30 days per annum is the expected time commitment and explains what is required if there is any material change to their commitments. The time commitment for the Chair and Chairs of Board Committees is expected to be much greater.

Board papers, including a management information pack, are issued to Directors prior to Board meetings.

Board agendas are agreed in advance of each meeting and focus on strategic matters, as well as ensuring that Directors are kept informed of key business activities and regulatory developments.

Draft minutes of the previous Board meeting are included in the papers for the following meeting, for approval. Approved minutes of all Board Committee meetings are also circulated to all Board Members. Where appropriate, papers are presented by the relevant member of the management team.

The Board and its Committees are served by the Group Secretary who advises on governance matters and procedures. Directors have access to independent professional advice should that be required.

Composition, Succession and Evaluation

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management.

Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

What the Society does to meet the Principles

The Nominations Committee is responsible for the recruitment of all Board members as well as members of the senior leadership team.

Work of the Nominations Committee

The Nominations Committee, chaired by the Society's Chair, supports the Board by fulfilling the following overall aims:

- Ensure the Board is of the appropriate size and has the appropriate skills and experience to enable it to fulfil its regulatory and corporate governance responsibilities; and
- Provide oversight of elements of the Society's People Strategy that relate specifically to the Board and all other roles under the Senior Managers Regime (SMR).

In fulfilling its central duties and responsibilities during 2022/23, the Committee has had a specific focus on:

- Endorsing design and implementation of a new leadership target operating model;
- Attraction, selection and appointment of a new Chief Operating Officer, Chief Customer Officer and Chief Financial Officer (see details of Executive Director appointments below);
- Ensuring the Board maintains the requisite skills and competencies to govern the Society; and
- Overseeing the broader organisational people strategy.

Meetings of the Nominations Committee

The Nominations Committee met on 7 occasions in the last financial year. In addition to the above specific areas of focus, the Committee also covered its standing duties and responsibilities as follows:

- Membership of Board committees;
- Board performance evaluation arrangements;
- NEDs reaching the end of their three year term of office;
- NED development (see details below);
- Board succession planning, including NED recruitment; and
- Training, development and succession planning of the wider leadership team.

The terms of reference of the Committee, which is made up of NEDs only, is available on request from the Group Secretary.

The 2018 Code's Main Principles / What the Society does to meet the Principles

Composition, Succession and Evaluation (continued)

Executive Director Appointments

The Nominations Committee regularly reviews Board succession plans and uses a Skills Matrix as one of the tools to identify future role needs. During this financial year the Committee has followed a rigorous approach to the identification of candidates able to drive the Society's strategy at both Board and operational level, with support provided from specialist recruitment firms. This process also took account of the departure of Ashraf Piranie following his successful tenure as the Society's Group Finance & Operations Director.

The action taken by the Nominations Committee has led to the appointment of two new Executive Directors to the Board. Alex Pawley, formerly the Society's Divisional Director of Treasury and Finance, began his appointment as Chief Financial Officer (CFO) on 1 January 2023. Martin Boyle, previously Chief Transformation Officer at Metro Bank, commenced his appointment as the Society's Chief Operating Officer (COO) in April 2023.

Board Development

The Society has a range of induction activities and material for NED appointments which are tailored to their individual experience. These include site visits, meetings with senior management and reports/information concerning the Group's operations. Internally organised events on topics of particular relevance to the Society are used to aid development. NEDs are also encouraged to attend appropriate externally organised events. A development log records relevant development activities undertaken by individual Directors.

The Society undertakes an externally led evaluation every three years supplemented by annual internal evaluations in the intervening period. An externally led evaluation was conducted in the latter part of the financial year 2021/22 culminating in a report with recommendations to the Board. This was followed by a programme of Board development facilitated by an external firm, New Street Consulting during the financial year 2022/23. Consequently, the Board agreed to delay a further Board Effectiveness Review until mid-2023/24 financial year where the review will also evaluate the effect of the Board Development Programme to date and input to any further stages of that Development Programme.

As a principle, the Society requires that NED Board members serve a maximum of nine years except where this may have a detrimental impact on the smooth running of the Board.

The Board requires that all NEDs should meet the Code's independence criteria on appointment and throughout their term of office and has determined that each of the current Directors is independent in character and judgement and that there are no potential conflicts of interest which would affect their judgement.

Audit, Risk and Internal Control

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

What the Society does to meet the Principles

The Society's Board is responsible for the development of strategies relating to risk management and internal control. Operational responsibility rests with the Executive Directors and senior managers.

The risk management systems and internal controls are designed to allow the Society to achieve its objectives in a controlled manner and remain within defined Risk Appetite Statements. These systems and controls are designed to manage rather than eliminate risk.

The Board reviews the effectiveness of the risk management systems and internal controls in a number of ways, including:

- Board review and approval of Risk Appetite Statements at least annually, with monthly reporting relating to those statements;
- A formal committee structure, including an Audit Committee (see below for more detail) and a Risk Committee (see Risk Management report for more detail). The minutes of the meetings of these Committees are available to the full Board with the relevant Committee Chair highlighting any key matters at the following Board meeting;
- Regular reports and presentations to the Board by the Executive Directors and other senior management; and
- Monthly Board report on key business information and performance.

In addition, the NEDs meet formally and informally without Executive Directors present.

The Society's Internal Audit function, with a reporting line to the Chair of Audit Committee, provides independent assurance regarding the adequacy and effectiveness of internal controls across all Group activities.

The Board has both an Audit Committee and Risk Committee comprising only NEDs, all of whom are considered independent according to the criteria contained in the Code. The terms of reference of the Committees are available from the Group Secretary on request. The Board is satisfied that at least one member of each Committee has recent and relevant financial experience. The Audit and Risk Committees receive detailed management information and reports to ensure they have a firm grasp of the Society's business and external operating environment. The Chairs of the Audit and Risk Committees receive additional fees in recognition of their additional responsibilities.

The Society has a policy on the engagement of the external auditors to supply non-audit services, which is operated across the Group and in tandem with the external auditors' own internal policy on providing non-audit services. There have been four meetings of the Audit Committee during the financial year 2022/23. Executive Directors and other members of senior management (by invitation only) attended the meetings. Those employees who regularly attend include the Chief Executive Officer, Chief Financial Officer, Group Secretary, Chief Risk Officer, and Chief Internal Auditor.

The 2018 Code's Main Principles	What the Society does to meet the Principles
Audit, Risk and Internal Control (continued)	During the last financial year, the Audit Committee: • Validated the integrity of the Group's financial statements (including formal announcements relating to such statements); • Reviewed and approved significant financial reporting judgements and accounting policies/issues; • Assessed the adequacy and effectiveness of the Society's internal controls and risk management systems; • Monitored and reviewed the effectiveness of the Group's Internal Audit function; • Reviewed the external auditors' independence, objectivity and the effectiveness of the audit process, together with the remuneration and terms of engagement; • Confirmed that the Internal Audit function was appropriately resourced; and • Met privately with the Chief Internal Auditor and the external auditors.
Remuneration Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The Board has established a Remuneration Committee, comprising only NEDs, which considers and makes recommendations to the Board on key remuneration decisions relating to Society staff who have been identified in the FCA's Remuneration Code as Code Staff. The Directors' Remuneration Report on pages 70 to 81 explains how the Society, through the Remuneration Committee and Board, approaches the remuneration of Directors and other executives. The Society is subject to the FCA's Remuneration Code, requiring the Society to have a remuneration policy which promotes effective risk management, supports business strategy, objectives and values, and is in the long-term interests of the Society. During the last financial year, the Remuneration Committee: • Reviewed the Society's Remuneration Policy; • Recommended to the Board the Performance-Related Pay Scheme and awards under that Scheme; • Reviewed employee benefits arrangements (including a one-off payment made to a number of colleagues to provide support during the cost of living crisis); • Made recommendations to the Board in respect of the annual salary review • Reviewed the employee benefits package; • Reviewed the terms of appointment and benefits of Code Staff; and • Sought input on executive remuneration proposals from both the Employee and Member Councils.

The attendance of individual Directors during the year, with the number of meetings each was eligible to attend shown in brackets, is set out below.

Attendance records – Board and Board Committee meetings

	Board	Nominations	Audit	Risk	Remuneration
John Maltby	9 (9)	7 (7)			7 (7)
Julie Hopes	9 (9)	7 (7)	4 (4)		7 (7)
Victoria Mitchell	9 (9)			6 (6)	7 (7)
Ashraf Piranie (left the Society 31/12/22)	7 (7)				
Lynne Shamwana	9 (9)	7 (7)	4 (4)	6 (6)	
Jonathan Westhoff	9 (9)				
David Thomas	9 (9)		4 (4)	6 (6)	6 (7)
Manjit Hayre	9 (9)				
Dave Dyer	8 (9)		4 (4)	5 (6)	
Anne Gunther	9 (9)			6 (6)	7 (7)
Alex Pawley (joined 01/01/2023)	2 (2)				

John Maltby
Chair
31 May 2023

This report sets out the work carried out by the Audit Committee throughout 2022/23.

Audit Committee Report

Membership and attendees

The Audit Committee is appointed by the Board and, at 31 March 2023, comprised four Non-Executive Directors:

Lynne Shamwana (Chair)

Julie Hopes

Dave Dyer

David Thomas

KEY decisions reached

- Reviewed and approved significant financial reporting judgements and accounting policies/issues;
- Validated the integrity of the Group's financial statements and associated reports (including formal announcements relating to such statements);
- Monitored and reviewed the effectiveness of the Group's Internal Audit function; and
- Reviewed the external auditor's independence, objectivity and the effectiveness of the audit process, together with the results of external quality inspections, remuneration and terms of engagement

The Chair, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Secretary, the external auditors and Chief Internal Auditor also attend by invitation.

The Board is satisfied that the Committee has members with recent and relevant financial experience.

The Committee met four times during the year, with attendance as detailed on page 64. In addition, the Committee met privately with the external auditors and the Chief Internal Auditor, during the year.

Roles and responsibilities

The roles and responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees (the 'Smith Guidance').

The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities in relation to:

- the provision of assurance to the Board regarding the integrity of the financial statements of the Society, including its annual and any interim reports, reviewing significant financial reporting issues and judgements which they contain. Where Board approval is required for other statements containing financial information (for example the release of price sensitive information), whenever practicable the Audit Committee should review such statements first (without being inconsistent with any requirement for prompt reporting under the Listing Rules or Disclosure and Transparency Rules);
- assessing the adequacy and effectiveness of the Society's internal controls and risk management systems (including conduct risk);
- reviewing and approving the statements to be included in the Annual Report concerning internal controls and risk management;
- reviewing the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements follow proportionate and independent investigation of such matters and appropriate follow up action;
- monitoring and reviewing the effectiveness of the Society's Internal Audit function in the context of the Society's overall risk management system;
- approving the appointment and removal of the Chief Internal Auditor, and making recommendations regarding performance objectives and remuneration to the Society's Remuneration Committee as required;
- considering and approving the remit of the Internal Audit function and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- reviewing and assessing the Internal Audit plan;
- considering and making recommendations to the Board, to be put to members for approval at the Annual General Meeting (AGM), in relation to the appointment, reappointment and removal of the Society's external auditor. The Committee shall oversee the selection process for new external auditors and if the external auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- monitoring the effectiveness of the Society's external auditor, PricewaterhouseCoopers LLP (PwC), including (but not limited to):
  - approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

- approval of their remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
- reviewing the results of the latest FRC annual inspection in respect of PwC;
- assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services; and
- reviewing and approving in accordance with policy, any proposed employment of employees or former employees of the Society's auditor.

The minutes of the Audit Committee are distributed to the Board, and the Committee Chair provides a verbal report to the Board meeting immediately following Committee meetings.

A copy of the Audit Committee terms of reference can be obtained from the Group Secretary, on request.

Areas of focus for the Committee in the year

The Committee has an annual schedule, developed from its terms of reference, with standing items that it considers at each meeting in addition to any specific matters upon which the Committee has decided to focus. The work of the Audit Committee falls under three main areas as follows:

a) Financial reporting issues and judgements

The Committee considers the financial information published in the Group's annual and half year financial statements including the accounting policies adopted by the Group, presentation and disclosure of the financial information and, in particular, the key judgements made by management in preparing the financial statements. The Committee focuses its attention on matters it considers to be important by virtue of their impact on the Group's results, and particularly those which involve a high level of complexity, judgement or estimation by management.

The Committee also takes note of the audit procedures conducted by the external auditor with a view to ensuring that suitable accounting policies have been implemented and appropriate judgements have been made by management.

The key matters that the Committee considered in reviewing the 2022/23 financial statements are outlined below.

- **Loan impairment provisions**
  For each mortgage portfolio in the scope of IFRS 9, the Committee confirmed the suitability of the approach to calculating expected credit losses. This included the suitability of Post Model Adjustments (PMAs) together with the judgements included within the calculation of those PMAs and the updates to the macro-economic scenarios. For the commercial book, up to date sector analysis, exposure and provision coverage was considered, especially for sectors considered 'at risk'. The Committee had the opportunity to review and challenge the impairment model assumptions, including probability-weighted forecasts of future economic conditions (with sensitivity analysis) and, for the non-core commercial loan book, account-specific scenario data. Furthermore the Committee has reviewed the credit risk disclosures. Based on this review, the Committee agreed that the loss provision requirements were suitably calculated and adequately disclosed.

- **Investment property valuations**
  The Group applies IAS 40 'Investment Properties' under which the residential properties held by the Society's subsidiary, West Bromwich Homes Limited, are measured at fair value. The Audit Committee has reviewed the methodology adopted to determine the fair value of the properties, including the impact of valuation adjustments, and concluded that the carrying value of the portfolio at the year end date is appropriately supported by market data and a sample validation exercise conducted by an independent firm of specialist valuers.

- **Financial instruments at fair value through profit or loss and hedge accounting**
  Following the rules and guidance of IAS 39, the Society applies hedge accounting to qualifying hedge relationships. The Committee has reviewed the hedging requirements and changes made to the hedge accounting processes as a result of previous external audit findings.

- **Deferred taxation**
  Following a detailed evaluation of the Group's Medium Term Plan, the Committee confirmed that the year end deferred tax asset, in relation to carried forward tax losses, has been recognised at an amount expected to be recoverable against future taxable profits.

- **Defined benefit pension liability**
  With respect to the Society's funded defined benefit pension scheme, the Audit Committee considered the key actuarial assumptions, as disclosed in note 31 to the accounts, and deemed them suitable for calculating the retirement benefit obligation at 31 March 2023.

- **Accounting standard updates**
  The Committee confirmed the reasonableness of the disclosures with regards to new or amended accounting standards.

- **Going concern and viability statement**
  The Committee performed a thorough review of evidence supporting the going concern and longer-term viability assumptions, including adjustments made to assumptions in light of the ongoing economic uncertainty. In doing so, it examined the Group's strategy and business model, together with capital and liquidity adequacy assessments under current market conditions and stressed scenarios. Thereafter the Committee approved the preparation of the accounts on a going concern basis and considered the longer-term viability statement given in the Directors' Report to be appropriate.

- **Fair, balanced and understandable**
  The Committee considers that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the necessary information for members to assess the Group's position, performance, business model and strategy.

- **External audit**
  The Committee considered matters communicated by the statutory external auditor and concluded that no material adjustments to the financial statements were required.

b) Risk and internal control

The Society recognises the importance of effective risk management and strong systems of internal control in the achievement of its objectives and the safeguarding of its assets, and also facilitates the effectiveness and efficiency of operations, which help to ensure the reliability of internal and external reporting and assist in compliance with applicable laws and regulations. The Society operates in a dynamic business environment and, as a result, the risks it faces change continually. Management are responsible for designing the internal control framework to ensure thorough and regular evaluation of the nature and extent of risk and the Society's ability to react accordingly. Management are also responsible for implementing the Board's policies on risk and control, noting that all employees are responsible for internal control as part of their individual objectives.

Further details of actual risk management practices are provided in the Risk Management Report on pages 34 to 47. Through the Committee, the Society's Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework. The information received and considered by the Committee during the 2022/23 financial year provided reasonable assurance that there were no material breaches of control and that, overall, the Society maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code.

Internal Audit utilise the services of external specialists for support in providing assurance in technical areas, primarily, Information Technology and Prudential Risk. The Chief Internal Auditor reports to the Chair of the Committee, and the Committee is responsible for agreeing the annual budget for Internal Audit, in addition to ensuring that the function retains adequate skills and resource levels that are sufficient to provide the level of assurance required.

The Audit Committee approves the Internal Audit plan of work, including subsequent amendments, which is prepared on a risk based approach by Internal Audit and reflects input from management and the Committee. The Committee reviews the work of, and output from, Internal Audit, in addition to progress against the agreed plan of work. Internal Audit provides the Committee with reports on material findings and recommendations and updates on the progress made by management in addressing those findings.

The Committee also reviews periodically the use of the confidential reporting channel in the Society. Awareness of 'whistle blowing' arrangements is maintained through internal communication and is covered as part of employees' induction and ongoing development.

As part of the external audit process, PwC performs testing over certain controls supporting the preparation of the financial statements, and reports any deficiencies to the Audit Committee. The Audit Committee takes note of control deficiencies reported and management resolution of these.

The Committee recommends an External Quality Assessment (EQA) of Internal Audit every three years. This review covers an assessment of compliance with internal auditing standards, in addition to Internal Audit's readiness to comply with the Chartered Institute of Internal Auditors recommendations on 'Effective Internal Audit in the Financial Services sector', issued in July 2013 (and updated in September 2017).

The last review in 2021/22, concluded the Internal Audit function 'generally conforms' to the Standards, which is the highest rating.

c) External auditor

PwC are in their third year as the Society's external auditor.

The Committee regularly monitors the Society's relationship with the external auditor and has adopted a framework for ensuring auditor independence and objectivity, which defines unacceptable non-audit assignments, pre-approval of acceptable non-audit assignments and procedures for approval of other non-audit assignments across the Society.

Details of the fees paid to the external auditor for audit and non-audit services are set out in note 6 to the Accounts.

The Committee assesses the effectiveness of the external auditor annually, the results of which are reported to and discussed at the next appropriate Committee meeting. This assessment is facilitated by the Group Secretary and is discussed, initially, without the presence of the auditor in the meeting. The Committee considers that the relationship with the auditor is working well and is satisfied with their effectiveness and independence.

Audit Committee effectiveness

The effectiveness of the Committee was assessed by an external firm in 2021/22. The scope of this review considered time management and composition, Committee processes and support, the work of the Committee and future priorities. This review concluded that the Committee operated effectively. An internal review is conducted in the years there is no external review.

Committee members are expected to undertake relevant training as part of their ongoing development and, periodically, the Committee as a whole receives training on current topics.

On behalf of the Board

Lynne Shamwana
Chair of Audit Committee
31 May 2023

This section explains our approach to rewarding Directors and colleagues.

Directors' Remuneration Report

Annual Statement by the Chair of the Remuneration Committee

As Chair of the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report. This report includes a summary of the Committee's activities over the year, our Remuneration Policy and details of pay and benefits for our Executive Directors and fees paid to Non-Executive Directors.

Following years that were impacted by the COVID-19 pandemic where there was a focus on supporting our colleagues and members' wellbeing, the labour market that emerged during 2021/2022 was much more competitive, creating a challenge for all businesses to attract and retain talented people resource. This has accelerated in 2022/23, with the additional factors of the cost of living crisis and the further development of hybrid working all impacting how we manage and support our colleague base.

The immediacy and widespread impact of the cost of living crisis was felt by colleagues and members alike. Across the winter months, over 70% of our colleagues benefitted from one-off support payments totalling £1,200. This sits alongside our Financial Hardship Support Fund, which exists to offer colleagues help in the event of a sudden, unexpected financial burden.

The Society has responded to the challenges of the labour market, taking action to attract and retain colleagues in line with our mutual culture. Ensuring that we continue to be a progressive employer that provides an engaging and rewarding working environment, as per our Environmental, Social and Governance strategy, means that we have a colleague base that delivers the best outcomes for our members and achieves our Purpose. The results of our annual colleague survey demonstrate how strong we are in these aims; 91% of colleagues participated and the results showed a 92% positive engagement score, with colleagues citing flexibility, purpose and development as important to them; themes we will continue to work hard on getting right.

The Chief Executive Officer's report outlines the strong performance of the Society during 2022/23, particular highlights have been statutory profit before tax of £31.8m, demonstrating our unwavering and sector-leading approach to delivering on the core of mutuality which equates to a member mutual benefit in financial terms alone of £33.2m.

Our members and our colleagues are our Society. All our actions and the endeavours of our colleagues are guided to serve our members in the best possible way. As such, the Committee considers that engaging and gaining the views of these two groups is essential to ensuring the Committee and Board can be supported to make the right decisions. Our Member and Employee Councils were the first to be established in the sector and have been in place for some years now. I regularly attend the Council meetings, and at the March meetings of each group, Executive Director Remuneration was discussed. Both Councils were supportive of Executive salaries keeping pace with the market in order that we can retain our strong team.

Ultimately, we demonstrate the importance of our members' views on remuneration by making their votes on both the Remuneration Report and Remuneration Policy binding, not just advisory, as is the case for most other firms. You vote on the Report at each AGM and then the Policy is voted on every three years or whenever changes are required. Under the three year rule the Policy is presented to the membership for such a vote. There is one change to the Policy to draw your attention to; car and fuel allowances relating to non-electric cars have been removed from benefits packages in line with the Society's commitment to the environment under its ESG strategy.

Turning to a review of the 2022/23 financial year, the Board continued to voluntarily adopt the relevant requirements of the UK Corporate Governance Code (the Code). The ratio of the Chief Executive Officer's pay to the wider colleague population has again been published (four times). A remuneration benchmarking review was undertaken for every role in the Society, against the market rate for that role ensuring that we pay fairly and competitively for the level of responsibility of every position. We are committed to paying all our employees the real Living Wage as an absolute minimum and during the year became the first building society and the first employer in the West Midlands to be accredited as a Living Hours employer.

The tables marked 'audited' in this report meet the requirements of the Building Societies Act 1986. The report also complies with EU Capital Requirements Directive V and the detailed requirements of the Financial Conduct Authority's (FCA's) Remuneration Code (the Remuneration Code). Details of the Remuneration Code can be found at www.fca.org.uk.

Under the Remuneration Code, the Society is required to identify those staff who are considered to have a material impact on the Society's risk profile (Code Staff). This includes all Executive and Non-Executive Directors and all members of the Society's Executive Committee (ExCo). The key focus of the Remuneration Committee is to have in place the Remuneration Policy for the pay and benefits, including performance-related pay, for such Code Staff. It also has oversight of reward practices for all other employees to ensure alignment to the Society's culture, and the Policy for Executive Directors.

This report is presented in two sections:

- The Remuneration Policy – setting out the Remuneration Committee's forward-looking Policy with regard to pay and benefits. The Society continues to strive to create an inclusive environment where diversity in all forms is encouraged and that the Society's Remuneration Policy is inclusive in both its design and practice.
- The Annual Remuneration Report – detailing the amounts earned by Directors in respect of the financial year ended 31 March 2023 and how the Policy will operate for the year ending 31 March 2024.

Salary and fees for 2022/23 and proposals for 2023/24

At the Society all roles are externally benchmarked for salary on an annual basis. As a result, salary changes have been focused on ensuring employees are appropriately paid taking into account the market rate for their role and delivering a consistent approach to pay throughout the organisation. Both the wage movements created by the buoyant labour market along with rising inflation are factored into the benchmarking that is performed using external data. On this basis, salary increases for eligible employees ranged between 1% and 20%.

Consistent with this approach, a recent independent benchmarking exercise of Executive Directors' remuneration was undertaken by our Remuneration Advisor, FIT Consultants. As reported in the Chair's Statement, Ashraf Piranie (the former Group Finance & Operations Director) left the organisation during the year. A new Chief Financial Officer has been appointed (January 2023) and a new Chief Operating Officer joined in April 2023, resulting in the following suite of Executive Directors:

- Chief Executive Officer;
- Chief Financial Officer;
- Chief Risk Officer; and
- Chief Operating Officer.

As has been reported in recent years, the overall remuneration of the Chief Executive Officer had not kept pace with the market. Last year, the salary increase awarded sought to address that trajectory and benchmarking data indicates that this has been achieved. Reflecting the benchmarking information, the performance of the Society under the Executive Directors' leadership, and to ensure that remuneration keeps pace with the market, the Remuneration Committee has agreed the following pay increases for the Executive Directors:

- Chief Executive Officer 4%;
- Chief Financial Officer 4%; and
- Chief Risk Officer 10%.

Ashraf Piranie (Group Finance & Operations Director) was not considered for a pay increase as he left the Society on 31 December 2022.

Performance-related pay awards

The Executive Director performance-related pay award payable to the Executive Directors generated the following awards:

- Chief Executive Officer 42.25%;
- Chief Financial Officer 39%; and
- Chief Risk Officer 39.75%.

These payments reflect the delivery of both personal and Society objectives including financial, risk, customer and people measures. These payments are being made based on the strong performance of the Executive Directors through another year of considerable uncertainty (both economic and operational). Further detail on the Society objectives is provided within page 79 of this report.

Deferred performance-related payments in relation to 2019/20, 2020/21 and 2021/22 for the Chief Executive Officer, Chief Risk Officer and former Group Finance & Operations Director have been approved for payment since the end of the 2022/23 financial year.

The Committee has, once again, not exercised its discretion in the Policy to increase the maximum performance-related pay award to 75% of basic salary. This will remain at 50% of salary for 2023/24.

FIT Consultants completed a recent review of the Non-Executive Director fees for the 2023/24 financial year against benchmarking data. The standard fee for a Non-Executive Director role has remained unchanged for the last twelve reporting periods; in order to keep pace with the market and retain a strong Board, a 4% increase will be applied to this fee, along with the Society Chair. Fees for Chairs of Board Committees were increased last year and will not receive any increase.

Gender and ethnicity pay

In August 2022, the Society published its updated report on gender and ethnicity pay gaps. The Society was pleased to be amongst the first financial services firms to voluntarily publish its ethnicity pay gap. Addressing the drivers of the pay gaps remains a key focus for the Society as reflected in their inclusion within our Key Performance Indicators as shown in the Strategic Report. Key to this is achieving a greater gender and ethnicity balance across the Society's pay range. It is pleasing to note the number of female and ethnic minority employees who are regarded as successors for senior positions. A full copy of the report can be found on the Society's website at www.westbrom.co.uk.

The Committee will continue to work diligently in the coming year to ensure it supports members and colleagues.

Julie Hopes
Chair of Remuneration Committee
31 May 2023

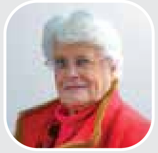
Remuneration Committee membership and responsibilities

Membership

The members of the Remuneration Committee during the financial year 2022/23 were:


Julie Hopes (Chair)


John Maltby


Anne Gunther


Victoria Mitchell


David Thomas

KEY decisions reached

- The Committee supported and oversaw support for the whole colleague base through the cost of living crisis via implementation of a Hardship Fund and support payments of £1,200 for qualifying colleagues.
- The Committee shaped suitable remuneration arrangements for movements in the Executive Director team.
- The Committee reached key decisions about the central aspects of Directors' remuneration, with the input of key stakeholder groups.

All members of the Committee are Non-Executive Directors. Under the Committee's terms of reference, at least one member of the Committee must also be a member of either the Risk Committee or Audit Committee. The current composition of the Committee complies with this requirement.

The Society's Chief Executive Officer, Group Secretary and Chief People Officer attend meetings by invitation.

Responsibilities

The Committee is responsible for setting the Policy on remuneration, overseeing its implementation and making recommendations to the Board in respect of remuneration arrangements for Executive Directors and other Code Staff.

Following each meeting, the Chair of the Committee reports to the Board on all substantive issues discussed.

The Committee is required to meet at least twice a year. During the year there were seven meetings.

The Committee considered the following matters during the year:

- Determining the pay and benefits of Executive Directors, the Chair, Code Staff and other senior managers, with consideration for the increase in general basic salary for the wider colleague population, recommending such to the Board for approval, where appropriate;
- Determining the budget for salary and performance-related pay for employees, including monitoring the approach to pay, reward and recognition, aligned with the ethos of a mutual organisation and the Society's overarching Purpose;
- Determining the level of performance-related pay in relation to the 2022/23 financial year and deferred awards due during the year for Code Staff and recommending to the Board for approval;
- Recommending to the Board the Society and individual performance-related pay objectives for Code Staff in relation to the 2023/24 financial year;
- Considering the approach to be adopted in respect of disclosure requirements in relation to this report; and
- Considering the approach for the Gender Pay Gap Regulations and Ethnicity Pay Gap data.

The Committee receives annual confirmation jointly from the Chief Risk Officer and the Chief Internal Auditor that no activity or behaviour by any individual has been identified or observed which should affect their eligibility to participate in performance-related pay arrangements. Confirmation of such has been received this year.

The Terms of Reference for the Committee were last updated in November 2022. The Terms of Reference are available on request from the Group Secretary.

Advisors

The Remuneration Committee seeks the advice of independent, external consultants, as required. During the 2022/23 year the Committee commissioned FIT Consultants to undertake a thorough benchmark of remuneration for Executive Directors.

Section 1 – The Remuneration Policy

Background

The Remuneration Policy (the Policy) provides the framework for the Committee to make remuneration decisions and recommendations to the Board in relation to Executive Directors and other Code Staff.

The Policy is designed to promote appropriate behaviours and practices consistent with the Society's risk appetite.

The approach of the Remuneration Committee is to ensure that Executive Directors' remuneration is designed to promote the long-term success of the Society, with full consideration of other stakeholders such as members, colleagues and regulators.

Remuneration decisions are made on the basis of total compensation comprising salary, performance-related pay and benefits, ensuring an appropriate balance between the fixed and variable components of remuneration. The variable element of the remuneration package creates flexibility to allow for changes in current and future performance.

The Society's remuneration principles are as follows:

- The Policy is in line with the strategy, objectives and values of the Society, thereby aligning it with both short and long-term interests;
- The policies, procedures, remuneration practices and performance-related payment schemes are consistent with the promotion of good and effective risk management and are structured in such a way as to discourage risk taking which is outside the Society's risk appetite;
- The Society's focus is on improving the underlying business position where management can influence performance. The Society's performance-related pay schemes may therefore exclude the impact of specific one-off items which would be agreed at the outset by the Society's Board following a recommendation by the Remuneration Committee;
- All remuneration packages are designed such that the Society can attract and retain high calibre individuals;
- Performance measures for individuals are challenging and robust, and measured on a consistent basis; and
- Performance-related pay is performance dependent, 40% of which is deferred over a four year period, to allow the Remuneration Committee to review whether the payment remains appropriate, and providing the ability to reduce or cancel the payment. The Committee also has discretion to recover payments previously made (clawback), should information come to light subsequent to the payment being made, that would have resulted in the Committee withholding the payment, had this information been known.

The Policy follows, as a minimum, regulatory requirements and good corporate governance practices.

Remuneration Policy and practice

Components of remuneration

The table below describes the Society's Policy with respect to each element of pay for Executive Directors:

Component	Operation and performance metrics	Opportunity
Basic salary Fixed remuneration set to attract and retain Executives of sufficient calibre through the payment of competitive rates.	Reviewed annually (or more frequently if required). Influencing factors include: role and experience, personal performance, salary increases awarded across the Society, and benchmarking comparisons against organisations of a similar size/complexity, and roles of similar responsibilities.	Set at a level considered appropriate, taking into account the relevant factors tabled. The Committee considers very carefully any pay awards which do not reflect the wider increases across the Society and will only make them where there is a clear commercial rationale for doing so.
Performance-related pay Linked to the delivery of Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives.	40% of the performance-related pay earned is deferred over a four year period from 2021/22 (previously three years). Deferred payments are made in equal instalments over the following four years, and are subject to annual review and recommendation by the Committee and require approval by the Non-Executive members of the Board. The Committee has discretion to make a reduction in the level of award (down to zero) or recover awards if necessary including withholding vested awards (malus arrangements) and recovering payments (clawback arrangements) in line with relevant regulation, which from April 2021 is for a period of 7 years for Executive Directors, and 5 years for deferred payments/ one year for non-deferred payments for other Code Staff after the award is paid (previously this 'clawback' arrangement was for a three year period for all Code Staff). The annual review prior to payment of a deferred element will take into account a number of factors, making sure management has operated within the risk appetite of the Society, not exposed the Society to regulatory or control failings, or taken other such actions that would represent a poor outcome for members. All awards are non-pensionable. Based on a number of measures, including: customer, financial, people, risk and new and enhanced operational capabilities. Reviewed by the Committee annually to ensure that the measures are appropriate.	The Committee has the discretion to allow maximum annual opportunity of 75% of basic salary (as approved by voting members at the 2018 AGM). However, the maximum opportunity for 2023/24 remains at 50% of basic salary.

Component	Operation and performance metrics	Opportunity
Pension or pension allowance A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors are invited to join the Society's stakeholder pension plan or, as an alternative, be provided with a cash allowance (for example, where they have exceeded the annual or lifetime allowance).	For all Executive Directors, a pension contribution or cash allowance equal to the maximum pension contribution available to all other employees (for 2023/24: 10.6%).
Benefits A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors receive benefits in line with market practice; private medical care for themselves and their family, and life assurance (4X basic salary). Other benefits may be provided in individual circumstances.	Set at a level considered appropriate, as part of a review of total compensation arrangements.

The table below shows the Policy for Non-Executive Directors:

Component	Operation	Application
Fees To attract and retain Non-Executive Directors of the right calibre for the Society.	Fees are reviewed annually for Non-Executive Directors by the Chair and Executive Directors. Fees for the Chair are recommended by the Remuneration Committee and approved by the Board. The Chair is not present when these fees are discussed or approved.	Fees are set at a level to attract individuals with the appropriate knowledge and experience and to reflect the responsibilities and time commitment for Board and Board Committees, taking into account market practice. Reimbursement is also made for reasonable travel expenses for attending meetings/Society business.

Whilst Non-Executive Directors do not participate in any performance-related pay scheme, their overall performance is reviewed annually by the Chair.

Recruitment Policy for Executive Directors

The appointment of an Executive Director could be either an internal or external appointment. In principle, the Society would look to provide no additional benefits to a new Director than those provided to an existing Director.

The approach is to offer a package that is sufficient to recruit an individual of sufficient calibre, but to pay no more than is necessary to attract the appropriate candidate.

Component	Application
Basic salary	A Director would receive an amount commensurate with their experience and responsibilities.
Benefits	A Director would receive comparable benefits to existing Directors, although if required to attract the right candidate these may be widened to include additional benefits, such as a relocation allowance.

Component	Application
Performance-related pay	The maximum performance-related award would be in line with current Policy, unless the market rate required to recruit the individual supported a higher amount. In any event, this would be no more than what is considered commercially justifiable.
Pension or pension allowance	An Executive Director would have the option to join the Society's stakeholder pension scheme or to receive a cash allowance up to the maximum pension contribution available to all employees, which is 10.6% of salary (with the cash allowance option subject to deduction of tax and national insurance).
Recruitment compensation	Compensation arrangements are only considered if the new Director was required to forego an arrangement from their previous employer. In such instances the award would be no more in terms of amount than the award due to be foregone. The timing and vesting requirements of any payment would be replicated as far as possible.

The Remuneration Committee has the right to exercise discretion within the Policy, and recommend to the Board an override of any formulaic approach laid out in the PRP Scheme Rules should it be deemed appropriate in line with good corporate governance.

In recommending remuneration arrangements for new hires, the Committee will consider the value of the total package on offer compared to similar positions in the market, the structure of the remuneration and the experience of the candidate, to ensure that arrangements are in the best interests of both the Society and its members, without paying in excess of what is deemed necessary to recruit a Director of the required calibre.

Recruitment Policy for Non-Executive Directors

As with Executive Directors, the approach is to offer a package that is sufficient to recruit an individual of sufficient calibre, but to pay no more than is necessary to attract the appropriate candidate.

Component	Application
Fees	A new Non-Executive Director would receive fees. The level of fees would be set at a level commensurate with the Director's experience and responsibilities and with due regard to the fees of other Non-Executive Directors.

Service contracts

The terms and conditions of employment for Executive Directors are detailed in their service contracts. The contract is terminable with twelve months' notice if given by the Society or six months' notice if given by the Director.

Non-Executive Directors do not have service contracts and instead have letters of engagement which set out their time commitments and responsibilities.

Policy on payment for loss of office

The Society's Policy, as reflected in Executive Director contracts, is for loss of office payments to be reduced by an amount equivalent to basic salary from new employment entered into during the period covered by loss of office payments.

Component	Application
Salary and benefits	A termination payment would be on the basis of the relevant notice period. There would be no payment in the event of misconduct or poor performance.
Performance-related pay	Any performance-related pay awards would be made solely at the discretion of the Committee. Any deferred awards would remain payable in future years subject to the normal rules of the Scheme, including possible reduction or cancellation.

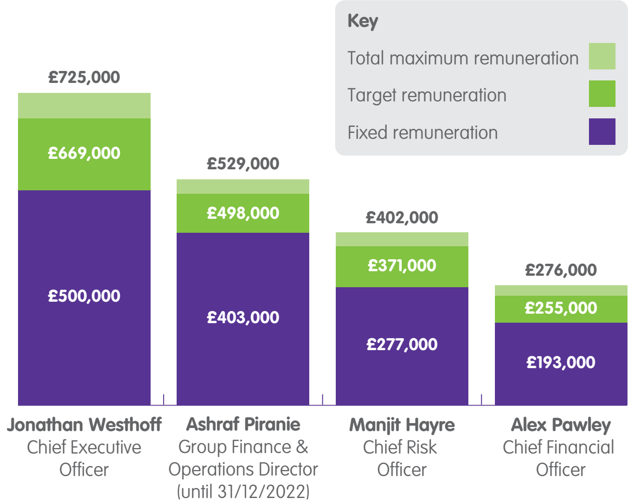
Employment conditions elsewhere in the Society

The pay and benefits of employees are considered annually by the Committee, which also determines the amount of general performance-related pay. The Society, subject to eligibility, offers a comprehensive range of benefits to employees, including pension, life assurance, health care, employee car scheme and performance-related pay. The Society's annual salary review scheme reviews salary for each employee based on robust external benchmarking, taking into account the market rate and level of responsibility for each role. From April 2023, base salary increments applied to eligible colleagues ranged between 1% and 20%.

Remuneration scenarios

The chart shows the breakdown of the component parts of the remuneration package for Executive Directors for 2022/23 on the following basis:

- Fixed remuneration – comprising basic salary, pension and benefits.
- Target remuneration – the anticipated annual remuneration incorporating a performance-related award.
- Maximum remuneration – the maximum remuneration that could be awarded.



Note:
Alex Pawley was appointed to the Board as Chief Financial Officer on 1 January 2023. The remuneration above reflects his total remuneration for the year, including the period for which he was not an Executive Director.

Ashraf Piranie's target and total maximum remuneration above reflects eligible performance-related pay for the period until he left the Society on 31 December 2022.

When developing the remuneration scenarios, the following assumptions were made:

- Fixed remuneration includes basic salary, pension and benefits only;
- Target remuneration is based on a performance-related award of 37.5% of basic salary; and
- Maximum award is based on a performance-related award of the maximum achievable which is 50% of basic salary (as stated on page 75, the Remuneration Committee has the right to allow an increase in performance-related award to 75% if deemed appropriate, with effect from financial year 2019/20).

Section 2 – Annual Report on Remuneration

Non-Executive Director fees (audited)

Non-Executive Director		Date appointed	2022/23 Fees (1) £000	2022/23 Benefits (2) £000	2021/22 Fees £000	2021/22 Benefits (2) £000
John Maltby	(Society Chair since 01/03/21)	04/01/21	125	1	109	2
Julie Hopes	(Remuneration Committee Chair. Deputy Chair from 01/08/19)	01/04/16	75	2	70	-
Lynne Shamwana	(Audit Committee Chair since 23/07/20)	01/02/19	65	2	60	1
David Thomas	(Risk Committee Chair from 04/05/21)	01/08/20	65	1	59	1
Victoria Mitchell		01/04/18	50	1	50	-
David Dyer		01/09/21	50	1	29	1
Anne Gunther		01/11/21	50	1	21	1
Mark Preston	(Risk Committee Chair until 03/05/21)	18/05/11	-	-	18	-
Total			480	9	416	6

Notes:
1. The Society's Chair (John Maltby) and other Non-Executive Directors with Committee Chair responsibilities (Julie Hopes, Lynne Shamwana and David Thomas) received a £5,000 increase in their fees from April 2022.
2. In addition to the payment of fees, Non-Executive Directors receive expenses for travel and accommodation in relation to their attendance at meetings.

As covered in the Chair's statement, Alex Pawley was appointed to the Board during the year as Chief Financial Officer and I am therefore pleased to include him in the reporting of Executive Directors' remuneration. The remuneration below reflects his total remuneration for the year, including the period for which he was not an Executive Director.

Executive Director Remuneration – 2022/23 (audited)

Executive Director		Basic salary £000	Performance-related pay (1) £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff	(Chief Executive Officer)	450	190	48	2	690
Ashraf Piranie	(Group Finance & Operations Director until 31/12/22)	253	95	27	124 (2)	499
Manjit Hayre	(Chief Risk Officer)	250	99	26	1	376
Alex Pawley	(Chief Financial Officer since 01/01/23)	166	65	18	9	258
Total		1,119	449	119	136	1,823

Notes:
1. Includes an element that is subject to deferral. The subsequent table headed 'Executive Director deferred performance-related pay payable in future years' details the amount due for payment, subject to review by the Committee at the appropriate time.
2. Other benefits for Ashraf Piranie include £55,900 redundancy pay and an amount of £52,341 in lieu of pay and benefits due for the period from January 2023 to March 2023 under the terms of his contract. A further amount in lieu of pay and benefits to cover the period from April 2023 to November 2023 (up to £260,000) is due to be paid in the new financial year, however due to the application of mitigation arrangements, this amount is expected to reduce to circa £49,500.

Executive Director Remuneration – 2021/22 (audited)

Executive Director		Basic salary £000	Performance-related pay (1) £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff	(Chief Executive Officer)	411	173	62	2	648
Ashraf Piranie	(Group Finance & Operations Director)	326	124	49	18	517
Manjit Hayre	(Chief Risk Officer)	193	73	21	5	292
Total		930	370	132	25	1,457

Notes:
1. Includes an element that is subject to deferral. The subsequent table headed 'Executive Director deferred performance-related pay payable in future years' details the amount due for payment, subject to review by the Committee at the appropriate time.

For 2022/23 a review of performance against objectives agreed at the start of the year has generated awards for Executive Directors of 42.25% for the Chief Executive Officer, 37.75% for the Group Finance & Operations Director, 39.75% for the Chief Risk Officer and 39% for the Chief Financial Officer (against maximum performance-related pay of 50%) resulting in the amounts shown in the 'Executive Director remuneration – 2022/23' table. These payments are based on performance against both Society and personal objectives.

For Jonathan Westhoff and Ashraf Piranie, 30% of their maximum award is/was based on Society objectives and 20% on personal objectives. For Manjit Hayre, 40% of his maximum award is based on personal objectives and 10% on Society objectives. For Alex Pawley, 20% of his maximum award is based on Society objectives and 30% on personal objectives, to acknowledge the majority (9 months) of the 2022/23 performance year where he was not in an Executive Director position. A review of performance against personal objectives agreed at the start of the year has generated awards of 17.5% for the Chief Executive Officer, 13% for the Group Finance & Operations Director, 31.5% for the Chief Risk Officer and 22.5% for the Chief Financial Officer. Awards agreed against Society objectives are detailed below.

Society overall objectives for the year include:

Objectives	% of overall award potential	% of award achieved
Customer • Gross residential lending • Retention of lending • Customer satisfaction • Ease of doing business	20%	17.5%
Financial • Profitability • Net interest margin • Cost efficiency	15%	15%
Change • System enhancement and implementation for savings and mortgages	15%	10%
Risk • Operational resiliency • Support capability for lending	15%	10%
People • Strengthening leadership and management capability • Enhancing diversity and inclusivity	15%	10%
Overall assessment by the Board of Executive performance	20%	20%
Overall Society objectives	100%	82.5%

A proportion of the Executive Directors' performance-related pay has been deferred as shown in the table below. Payment of any deferred award is subject to review by the Remuneration Committee and approval by the Board, and may be reduced or cancelled as appropriate.

Executive Director deferred performance-related pay
Payable in future years

Executive Director	Deferred from	Payable after year ending 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Jonathan Westhoff	2019/20	20	-	-	-	-
	2020/21	24	24	-	-	-
	2021/22	17	17	17	17	-
	2022/23	-	19	19	19	19
Total		**61**	**60**	**36**	**36**	**19**
Ashraf Piranie (until 31/12/2022)	2019/20	15	-	-	-	-
	2020/21	18	18	-	-	-
	2021/22	12	12	12	12	-
	2022/23	-	10	10	10	10
Total		**45**	**40**	**22**	**22**	**10**
Manjit Hayre	2021/22[1]	7	7	7	7	-
	2022/23	-	10	10	10	10
Total		**7**	**17**	**17**	**17**	**10**
Alex Pawley	2022/23[2]	-	6	6	6	6
Total		**-**	**6**	**6**	**6**	**6**

Notes:
1. The breakdown shown for Manjit Hayre includes elements subject to deferral from his total performance-related pay awarded for the year, including the period for which he was not an Executive Director.
2. The breakdown shown for Alex Pawley includes elements subject to deferral from his total performance-related pay awarded for the year, including the period for which he was not an Executive Director.

Chief Executive Officer (CEO) pay ratio

The Companies (Miscellaneous Reporting) Regulations 2018, came into force for accounting periods starting 1 January 2019 and requires the publication of the ratio of the CEO's total remuneration. Whilst the requirement applies to 'quoted' companies with more than 250 UK employees, the Committee has chosen to comply with the regulation.

We have chosen to use the government's preferred methodology (option A) which requires calculation of total full-time equivalent of pay and benefits of all its UK employees for the financial year, and compare the median, 25th and 75th percentiles against the CEO single figure. The ratios shown below are based on the Society's employee base as at 31 March 2023.

Year	Method	25th percentile	Median	75th percentile
2022-23	Option A	29:1	22:1	16:1
2021-22	Option A	30:1	23:1	15:1
2020-21	Option A	31:1	23:1	16:1
2019-20	Option A	31:1	24:1	16:1

Remuneration element	25th percentile (£)	Median (£)	75th percentile (£)
Total pay and benefits	23,809	30,995	43,240
Salary	19,838	29,500	42,000

Statement on member voting at the 2022 AGM

At the 2022 AGM members voted on the Directors' Remuneration Report, the results of which are shown below.

Approval of the Directors' Remuneration Report (advisory vote, i.e. not conditional on resolution being passed):

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Report	10,937	92.11	937	255

At the 2020 AGM members voted on the Directors' Remuneration Policy and the Directors' Remuneration Report, the results of which are shown below:

Approval of the Directors' Remuneration Policy (binding vote):

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Policy	12,902	91.67	1,173	330

Approval of the Directors' Remuneration Report (advisory vote, i.e. not conditional on resolution being passed):

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Report	12,973	92.12	1,109	324

* The withheld figures are not included in the calculation of % 'Votes for'.

Application of the Remuneration Policy for 2023/24

The Remuneration Committee is required annually to review the salaries of the Executive Directors.

The Remuneration Committee undertook a benchmarking exercise of remuneration for Executive Directors in March 2023. The Committee has again chosen not to apply its discretion to increase the performance-related pay award.

The annual salary review for employees was based on robust benchmarking data for every role, taking into account the level of responsibility and the external market rate for each position. We continue to review and apply equitable pay practices across the Society, as demonstrated by completion of the pension alignment programme which means that all employees (including Executive Directors) are eligible to the same percentages.

The Society enters the next period confidently, as we are well equipped to meet the challenges posed by the external environment.

The Committee's focus next year will be to support the leadership team in taking our Purpose-led strategy forward for the benefit of all members.

The Remuneration Committee will continue to strive to align its decisions with industry best practice and regulatory requirements whilst considering both the best interests of the Society and the interests of members.

Julie Hopes
Chair of Remuneration Committee
31 May 2023

Independent auditors' report to the members of West Bromwich Building Society

Report on the audit of the annual accounts

Opinion

In our opinion, West Bromwich Building Society's Group annual accounts and Society annual accounts (the "annual accounts"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 March 2023 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the annual accounts, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society statements of financial position as at 31 March 2023; the Group and Society income statements and statements of comprehensive income, the Group and Society statements of cash flows, and the Group and Society statement of changes in members' interests and equity for the year then ended; and the notes to the annual accounts, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the annual accounts, the Group, in addition to applying UK-adopted international accounting standards, has applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group annual accounts have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the annual accounts in the UK, which includes the FRC's Ethical Standard applicable to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than those disclosed in note 6 to the annual accounts, we have provided no non-audit services to the Group in the period from 1 April 2022 to 31 March 2023.

Our audit approach

Overview

Materiality

- £4.3m (2022: £4.0m) - Group annual accounts
- Based on 1% of Group net assets
- £3.7m (2022: £3.8m) - Society annual accounts
- Based on 1% of Society net assets

Scoping

- We conducted all of our audit work over the Group and its components using one audit team, using information obtained from the Groups' staff and records based in West Bromwich.
- Audit procedures were performed over all material account balances and financial information in the Society due to its significance to the Group's financial performance and position.
- The Group consists of the Society and twelve other entities. Our audit procedures provide coverage over 99.7% of the interest income of the Group and 99.9% of the total assets of the Group.

Key audit matters

- Risk of inappropriate judgements and estimates relating to the significant management judgements involved in determining the appropriateness of account specific scenarios and associated weightings given the historic facts and circumstances in each account within the Commercial loan portfolio (Group).
- Risk of inappropriate judgements and estimates relating to future economic assumptions and post model adjustments applied to the expected credit loss (ECL) allowance on loans and advances to customers in the residential portfolios (Group and Society).
- Risk of inappropriate manual adjustments made in the hedging process(Group and Society).
- Risk of material misstatement in the valuation of investment property through inappropriate assumptions applied in the year end valuation (Group).
- Risk of incorrect assumptions applied in the valuation of the year end defined benefit pension liability, in particular selection of appropriate mortality rate, discount rate and inflationary assumptions (Group and Society).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the annual accounts. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the annual accounts section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations including, but not limited to, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the annual accounts. We also considered those laws and regulations that have a direct impact on the annual accounts such as the Building Societies Act 1986. We evaluated management's incentives and opportunities for fraudulent manipulation of the annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to reduce expenditure and increase income and inappropriate management bias in accounting estimates. Audit procedures performed included:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Review of correspondence with and reports to the regulators;
- Testing significant accounting estimates (see key audit matters below);
- Testing of the assumptions used within the effective interest rate method for recognising interest income for their appropriateness;
- Testing of journal entries which contained unusual account combinations back to corroborating evidence;
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Specific audit procedures over non-interest revenue streams significant to the Group accounts.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the annual accounts of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of inappropriate judgements and estimates relating to the significant management judgement involved in determining the appropriateness of commercial account specific scenarios and associated weightings. The individual assessment used in the modeled solution within this portfolio means there is a risk that non-linearities within the economic scenarios are not captured as different loans may exhibit different repayment patterns and optimal exit strategies in a stressed scenario. See notes 14 and 33 to the financial statements for the directors' IFRS 9 impairment disclosures. The modeling of commercial loans, which is a closed book, is performed separately to the residential portfolio, with management performing individual assessments given the unique circumstances and large exposures. The focus of our audit work was on the methodology used to determine the staging of loans and the level of individual assessment required. Management performs individual impairment assessments for stage 3 loan exposures where unique circumstances mean that management judgement is required to determine the different possible future scenarios and the level of provision required for each one. Our focus was on the principal assumptions applied by management in estimating impairment provisions such as the valuation of collateral, forecast and timing of future cash flows and the completeness and severity of future scenarios. These assumptions are based on existing contracts between the Group and borrowers or tenants and management's best estimates of future work out strategies, including alternative scenarios which are used as part of the weighted final provision calculation.	We performed the following procedures to address the areas of judgement and estimates used in the calculation of commercial ECL: • We performed a walkthrough of management's process of determining the commercial loans expected credit loss. We tested the design and implementation of key controls over the selection, review and approval of assumptions used in determining the expected credit loss and over model performance monitoring, including periodic model review and approval of model changes. • With the assistance of risk modeling specialists, we assessed the methodology used to stage the commercial loans for compliance with the standard, including the application of this within the model itself. • We selected a sample of loans and tested them for consistency with the individual scenarios modeled by management, agreeing key data points back to supporting documents (eg. contracts, lease agreements and valuation reports). • We challenged management's assumptions where case reviews indicated that alternative outcomes could occur and considered the impact on the ECL of these. Based on the procedures performed and the evidence obtained, we found management's judgements used in the determination of the commercial ECL to be reasonable.

Key audit matter	How our audit addressed the key audit matter
Risk of inappropriate judgements and estimates relating to future economic assumptions and post model adjustments applied to the expected credit loss (ECL) allowance on loans and advances to customers in the residential portfolios. Under the IFRS 9 impairment models, losses are recognised on an 'expected credit loss' (ECL) basis. The calculation of expected credit losses requires the use of forward looking information, reflecting management's view of potential future economic scenarios. The standard also requires management to make judgements regarding when a loan has experienced a 'significant increase in credit risk' and to make assumptions regarding expected customer default rates and repayment behavior. See notes 14 and 33 to the financial statements for the directors' IFRS 9 impairment disclosures. We focused our audit work on the areas of the methodology and assumptions that we identified as most judgemental. This was informed by our understanding of the model and areas of increased management judgement. For the residential book ECL, the key assumptions were: • The key economic variables and scenarios used in the model, particularly the severity and likelihood of the base and downturn economic scenarios that form part of the forward looking modeling of default rates and house price values and their impact on ECL; • The post model adjustments that are made to account for areas of credit risk not captured within the base modeling solution.	We performed the following procedures to address the areas of judgement and estimates used in the calculation of residential ECL: • We performed a walkthrough of management's process of determining the residential expected credit loss. We reviewed changes made to the model in the current year and assessed the appropriateness and implementation of these changes. • We compared the forward-looking economic assumptions to independent forecasters. The severity and magnitude of the scenarios were compared to external forecasts and data from historical economic downturns, and the sensitivities of the scenarios were considered against consensus. • We tested whether the economic scenarios used were appropriately severe so as to capture nonlinear effects in credit losses which may arise in economic downturns and weighted appropriately given the current economic uncertainty. • We tested the appropriateness of the post model adjustments made by management, including testing the underlying assumptions used in these adjustments and consideration of completeness of adjustments made through review of ECL coverage and comparison with wider industry levels. Based on the procedures performed and the evidence obtained, we found management's judgements used in the determination of the residential ECL to be reasonable.
Risk of error in the application of hedge accounting for swaps and hedge effectiveness adjustments made in relation to the interest rate hedges entered into Operations of the Group expose them to significant interest rate risk as a result of a mismatch between fixed and floating interest rate cash flows. Management have sought to mitigate the risk of future movements in market interest rates affecting profitability through the use of derivative financial instruments in the form of interest rate and cross currency swap contracts. Management designates these swaps under hedge accounting arrangements to reduce the effect of future movements in interest rates on amounts recorded in the financial statements. Where a designated hedge accounting relationship is formed, accounting rules allow the Group's fixed rate mortgage book to be re-measured for fair value changes attributable to the hedged risk. We focused on this area as hedge accounting rules are complex. Given the size of both the fixed interest mortgages and interest rate swaps held on the balance sheet, this gives rise to an increase in the risk of error in application. The Group's disclosures are given in Note 12.	We performed the following procedures to address the risks in relation to hedge accounting: • We performed a walkthrough of management's end to end process for performing hedge accounting in relation to fair value hedges. • We obtained and read the hedge accounting documentation to evaluate whether it was compliant with the accounting requirements of International Accounting Standard 39 'Financial Instruments'. This included testing of a sample of hedge designations and inspection of a sample of hedge documentation. • We independently re-performed a sample of hedge effectiveness tests performed by management, considering both prospective and retrospective testing. • We also re-performed the valuation of a sample of derivatives and underlying hedged items and tested the reconciliation between the hedging models and the amounts recorded in the general ledger. Based on the evidence obtained, we determined the application of hedge accounting to be appropriate.
Risk of material misstatement in the valuation of investment property through inappropriate assumptions applied in the year end valuation The Group holds a portfolio of investment properties within the West Bromwich Homes Limited subsidiary. In line with the requirements of the accounting standard these properties are held at fair value with changes in the fair value recognised within the income statement. Further disclosure is given within note 17 of the financial statements. Management calculates the year end valuation with the assistance of external valuation experts who assess the current valuation through comparison to expected market values at the balance sheet date. In certain situations, management makes adjustments to the valuations provided by their experts to capture specific risks identified. Given the overall valuation of the investment property portfolio at the year end and the potential reasonable range of reasonable valuations we determined that this represents a significant risk within our audit plan.	Our procedures over the year end valuation included: • We performed a walkthrough of management's process of determining the fair value of the property portfolio. • We evaluated the competence, objectivity and independence of experts engaged by the directors to assist with the property valuations and review of historical performance of the valuations against actual sales. • We engaged our internal Real estate valuation experts to evaluate the work performed by management's experts and assessed the reasonableness of any differences in the valuations used with regard to externally available sources (such as land registry data). • We tested adjustments to the expert valuation made by management, including assumed costs in relation to cladding, back to supporting documentation or evidence. Based on the evidence obtained, we determined the methodologies, inputs and assumptions used in the investment property valuations to be materially appropriate.

Key audit matter	How our audit addressed the key audit matter
Risk of incorrect assumptions applied in the valuation of the year end defined benefit pension liability, in particular selection of appropriate mortality, discount rate and inflationary assumptions The Group and Society operates a defined benefit pension scheme for certain staff members. The present value of the schemes is materially sensitive to a number of judgements including the discount rate, inflation and mortality. Setting these judgements is complex and small changes can have a significant impact on the year end liability valuation. Given the scheme assets are invested with an external party in diversified market funds, with a portion of the liabilities also insured, we deem the significant risk to relate specifically to the liability valuation of the scheme. We focused our work on the judgements made by management, in conjunction with third party actuaries, relating to the discount rate, inflation rate and pensioner mortality. The Group's disclosures are given in note 31 including relevant sensitivity disclosures for the key assumptions used by the scheme actuary in the valuation of the liability.	We performed the following procedures to address the valuation risks in relation to the year end defined benefit pension liability: • We independently assessed, using our actuarial experts, the discount rate, inflation rate and mortality assumptions used and compared these to observable market rates at the year end. We assessed instances where management's judgements and that of their experts differed from market consensus and assessed the reasonableness of explanations for these deviations. • We considered the independence, objectivity and competence of the third party actuaries engaged by management to perform their valuation. • We considered the recognition of the surplus by the Society with reference to the requirements of the accounting standards and terms between the Society and the Trustee. From the evidence obtained, we found the assumptions used by management in the actuarial valuations for pension obligations to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the annual accounts as a whole, taking into account the structure of the Group and the Society, the accounting processes and controls, and the industry in which they operate.

Substantially all of the Group's activities are in the United Kingdom and it reports its operating results along three business lines, being retail, commercial real estate and property businesses (see note 38 of the financial statements).

We performed an audit of all material account balances and other financial information for the Society and twelve subsidiaries, together with the assessment of management's going concern assumption.

All audit work over the Group and its components was performed by a single audit team.

Taken together, our audit procedures on the Society and its subsidiary undertakings provided us with sufficient audit evidence as a basis for our opinion on the Group financial statements as a whole.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Society's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Management considers the impact of climate risk does not give rise to a potential material financial statement impact as set out in the risk management report and our procedures have not identified any material impact in the context of our audit over the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the annual accounts as a whole.

Based on our professional judgement, we determined materiality for the annual accounts as a whole as follows:

	Group annual accounts	Society annual accounts
Overall materiality	£4.2m (2022: £4.0m).	£3.7m (2022: £3.8m).
How we determined it	1% of net assets.	1% of net assets.
Rationale for benchmark applied	We believe that the subscribed capital and reserves ("net assets") is the most appropriate benchmark to use for the Society and Group, whose strategy is not one of profit maximisation. Regulatory capital is a key benchmark for management and regulators and hence we continue to use net assets, a proxy to regulatory capital, as our benchmark.	

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £0.1m to £3.7m.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £3.2m for the Group financial statements and £2.8m for the Society materiality.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £211k (2022: £201k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Society's ability to continue to adopt the going concern basis of accounting included:

- Evaluation and challenge of key assumptions used by the directors in their determination of the going concern of the Group and Society;
- Review of key regulatory returns in relation to liquidity and capital and consideration of the stress testing performed;
- Consideration as to whether our audit work had identified events or conditions which may give rise to uncertainty as to the Group's future ability to trade; and
- Review of legal and regulatory correspondence to ensure that any compliance issues which may impact the going concern of the Group had not been identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Society's ability to continue as a going concern for a period of at least twelve months from the date on which the annual accounts are authorised for issue.

In auditing the annual accounts, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and Society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the annual accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual Business Statement and Directors' Report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Based on our work undertaken in the course of the audit, the Building Societies Act 1986 requires us also to report certain opinions and matters as described below.

Annual Business Statement and Directors' Report
In our opinion, based on our work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 March 2023 is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In light of the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the annual accounts and the audit

Responsibilities of the directors for the annual accounts
As explained more fully in the Directors' responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts, the directors are responsible for the preparation of the annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the annual accounts
Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the annual accounts is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting
Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

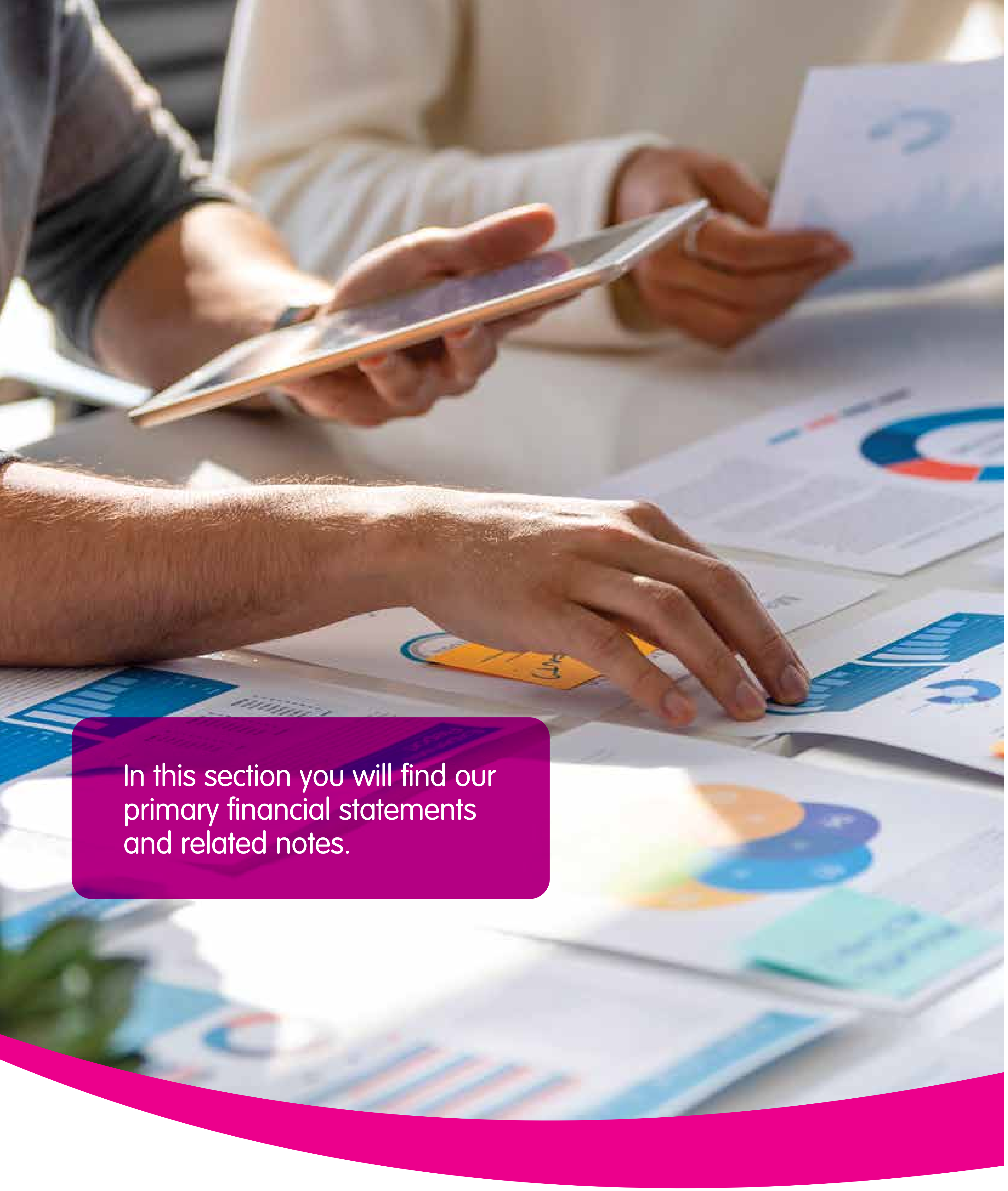
- adequate accounting records have not been kept by the Society; or
- the Society annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the audit committee, we were appointed by the members on 20 September 2020 to audit the annual accounts for the year ended 31 March 2021 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2021 to 31 March 2023.

Other matter
In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
31 May 2023



Financial statements

Income Statements

for the year ended 31 March 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Interest receivable and similar income					
Calculated using the effective interest method		**145.9**	100.0	**130.9**	99.6
On instruments measured at fair value through profit or loss		**28.3**	(12.7)	**26.8**	(10.2)
Total interest receivable and similar income	2	**174.2**	87.3	**157.7**	89.4
Interest expense and similar charges	3	**(91.0)**	(25.2)	**(91.5)**	(28.2)
Net interest receivable		**83.2**	62.1	**66.2**	61.2
Fees and commissions receivable		**1.4**	1.9	**1.3**	2.1
Other operating income	4	**4.4**	3.7	**0.4**	-
Fair value gains on financial instruments	5	**6.6**	10.6	**7.2**	9.4
Total income		**95.6**	78.3	**75.1**	72.7
Administrative expenses	6	**(39.9)**	(45.5)	**(38.2)**	(43.9)
Depreciation and amortisation	16,18	**(5.8)**	(7.4)	**(5.8)**	(7.4)
Operating profit before revaluation gains, impairment and provisions		**49.9**	25.4	**31.1**	21.4
Gains on investment properties	17	**6.0**	5.8	**-**	-
Impairment on loans and advances	14	**(24.1)**	(8.1)	**(1.1)**	1.4
Provisions for liabilities	25	**-**	0.1	**-**	0.1
Provisions against investments in subsidiary undertakings	15	**-**	-	**(14.3)**	(10.0)
Profit before tax		**31.8**	23.2	**15.7**	12.9
Taxation	9	**(5.6)**	1.2	**(7.1)**	(0.4)
Profit for the financial year		**26.2**	24.4	**8.6**	12.5

The profit for the year derives wholly from continuing operations.

The notes on pages 98 to 165 form part of these accounts.

Statements of Comprehensive Income

for the year ended 31 March 2023

	Notes	Group 2023 £m	Group 2022 £m
Profit for the financial year		**26.2**	24.4
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation losses taken to equity		**(0.3)**	(1.0)
Taxation	30	**0.1**	0.2
Items that will not subsequently be reclassified to profit or loss			
Gains on revaluation of land and buildings		**0.6**	-
Actuarial (losses)/gains on defined benefit obligations	31	**(10.8)**	9.6
Taxation	30	**2.2**	(2.9)
Other comprehensive (expense)/income for the financial year, net of tax		**(8.2)**	5.9
Total comprehensive income for the financial year		**18.0**	30.3

	Notes	Society 2023 £m	Society 2022 £m
Profit for the financial year		**8.6**	12.5
Other comprehensive income/(expense)			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation losses taken to equity		**(0.3)**	(1.0)
Taxation	30	**0.1**	0.2
Items that will not subsequently be reclassified to profit or loss			
Gains on revaluation of land and buildings		**0.6**	-
Actuarial (losses)/gains on defined benefit obligations	31	**(10.8)**	9.6
Taxation	30	**2.2**	(2.9)
Other comprehensive (expense)/income for the financial year, net of tax		**(8.2)**	5.9
Total comprehensive income for the financial year		**0.4**	18.4

The notes on pages 98 to 165 form part of these accounts.

Statements of Financial Position

at 31 March 2023

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Assets					
Cash and balances with the Bank of England	10	**598.2**	652.0	**598.2**	652.0
Loans and advances to credit institutions		**72.8**	73.2	**40.5**	27.1
Investment securities	11	**315.6**	286.9	**686.2**	740.6
Derivative financial instruments	12	**100.5**	52.4	**100.5**	52.2
Loans and advances to customers	13	**4,370.3**	4,778.3	**3,224.3**	3,429.5
Deferred tax assets	19	**25.0**	27.1	**17.0**	18.4
Trade and other receivables	20	**10.7**	2.2	**10.7**	2.1
Investments	15	**-**	-	**896.3**	1,027.3
Intangible assets	16	**9.9**	10.2	**9.9**	10.2
Investment properties	17	**152.7**	147.3	**-**	-
Property, plant and equipment	18	**22.7**	22.8	**22.7**	22.8
Retirement benefit asset	31	**10.9**	14.9	**10.9**	14.9
Total assets		**5,689.3**	6,067.3	**5,617.2**	5,997.1
Liabilities					
Shares	21	**4,306.3**	4,183.6	**4,306.3**	4,183.6
Amounts due to credit institutions		**826.2**	1,116.7	**826.6**	1,116.2
Amounts due to other customers	22	**63.1**	114.6	**56.3**	262.3
Derivative financial instruments	12	**6.7**	11.5	**6.6**	11.4
Debt securities in issue	23	**-**	171.2	**-**	-
Current tax liabilities		**0.6**	0.3	**0.6**	0.3
Deferred tax liabilities	19	**15.4**	14.7	**4.6**	5.7
Trade and other payables	24	**17.1**	14.0	**16.0**	13.0
Provisions for liabilities	25	**0.5**	0.5	**0.4**	0.4
Subordinated liabilities	28	**22.9**	22.9	**22.9**	22.9
Total liabilities		**5,258.8**	5,650.0	**5,240.3**	5,615.8
Members' interests and equity					
Core capital deferred shares	27	**127.0**	127.0	**127.0**	127.0
Subscribed capital	26	**7.8**	7.8	**7.8**	7.8
General reserves		**292.4**	279.1	**238.8**	243.1
Revaluation reserve		**3.3**	3.1	**3.3**	3.1
Fair value reserve		**-**	0.3	**-**	0.3
Total members' interests and equity		**430.5**	417.3	**376.9**	381.3
Total members' interests, equity and liabilities		**5,689.3**	6,067.3	**5,617.2**	5,997.1

The accounting policies and notes on pages 98 to 165 form part of these accounts.

Approved by the Board of Directors on 25 May 2023 and signed on its behalf by:

John Maltby
Chair

Jonathan Westhoff
Chief Executive Officer

Alex Pawley
Group Financial Officer

Statements of Changes in Members' Interests and Equity

for the year ended 31 March 2023

Group	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2022	**127.0**	**7.8**	**279.1**	**3.1**	**0.3**	**417.3**
Profit for the financial year	-	-	26.2	-	-	**26.2**
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(8.5)	-	-	**(8.5)**
Gains on revaluation of land and buildings				0.6		**0.6**
Realisation of previous revaluation gains	-	-	0.4	(0.4)	-	**-**
Fair value through other comprehensive income investments	-	-	-	-	(0.3)	**(0.3)**
Total other comprehensive income	**-**	**-**	**(8.1)**	**0.2**	**(0.3)**	**(8.2)**
Total comprehensive income for the year	**-**	**-**	**18.1**	**0.2**	**(0.3)**	**18.0**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(4.8)**	**-**	**-**	**(4.8)**
At 31 March 2023	**127.0**	**7.8**	**292.4**	**3.3**	**-**	**430.5**

for the year ended 31 March 2022

Group	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2021	127.0	7.8	250.7	3.3	1.1	389.9
Profit for the financial year	-	-	24.4	-	-	24.4
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	6.9	-	-	6.9
Realisation of previous revaluation gains	-	-	-	(0.2)	-	(0.2)
Fair value through other comprehensive income investments	-	-	-	-	(0.8)	(0.8)
Total other comprehensive income	-	-	6.9	(0.2)	(0.8)	5.9
Total comprehensive income for the year	-	-	31.3	(0.2)	(0.8)	30.3
Distribution to the holders of core capital deferred shares	-	-	(2.9)	-	-	(2.9)
At 31 March 2022	127.0	7.8	279.1	3.1	0.3	417.3

Statements of Changes in Members' Interests and Equity

for the year ended 31 March 2023

Society	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2022	**127.0**	**7.8**	**243.1**	**3.1**	**0.3**	**381.3**
Profit for the financial year	-	-	8.6	-	-	**8.6**
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(8.5)	-	-	**(8.5)**
Gains on revaluation of land and buildings				0.6		**0.6**
Realisation of previous revaluation gains	-	-	0.4	(0.4)	-	**-**
Fair value through other comprehensive income investments	-	-	-	-	(0.3)	**(0.3)**
Total other comprehensive income	**-**	**-**	**(8.1)**	**0.2**	**(0.3)**	**(8.2)**
Total comprehensive income for the year	**-**	**-**	**0.5**	**0.2**	**(0.3)**	**0.4**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(4.8)**	**-**	**-**	**(4.8)**
At 31 March 2023	**127.0**	**7.8**	**238.8**	**3.3**	**-**	**376.9**

for the year ended 31 March 2022

Society	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2021	127.0	7.8	226.6	3.3	1.1	365.8
Profit for the financial year	-	-	12.5	-	-	12.5
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	6.9	-	-	6.9
Realisation of previous revaluation gains	-	-	-	(0.2)	-	(0.2)
Fair value through other comprehensive income investments	-	-	-	-	(0.8)	(0.8)
Total other comprehensive income	-	-	6.9	(0.2)	(0.8)	5.9
Total comprehensive income for the year	-	-	19.4	(0.2)	(0.8)	18.4
Distribution to the holders of core capital deferred shares	-	-	(2.9)	-	-	(2.9)
At 31 March 2022	127.0	7.8	243.1	3.1	0.3	381.3

The notes on pages 98 to 165 form part of these accounts.

Statements of Cash Flows

for the year ended 31 March 2023

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Net cash inflow/(outflow) from operating activities (below)	**161.3**	365.7	**(192.2)**	220.0
Cash flows from investing activities				
Purchase of investment securities	**(240.5)**	(101.9)	**(240.4)**	(101.9)
Proceeds from disposal of investment securities	**211.4**	86.5	**294.5**	141.7
Proceeds from disposal of investment properties	**2.1**	2.1	**-**	-
Purchase of property, plant and equipment and intangible assets	**(7.8)**	(5.1)	**(6.2)**	(4.6)
New funding to subsidiaries	**-**	-	**(18.8)**	(52.4)
Repayment of funding from subsidiaries	**-**	-	**131.5**	93.7
Net cash (outflows)/inflows from investing activities	**(34.8)**	(18.4)	**160.6**	76.5
Cash flows from financing activities				
Repayment of debt securities in issue	**(172.0)**	(47.4)	**-**	-
Interest paid on subordinated liabilities	**(2.5)**	(2.5)	**(2.5)**	(2.5)
Payment of lease liabilities	**(0.3)**	(0.4)	**(0.4)**	(0.4)
Distribution to the holders of core capital deferred shares	**(4.8)**	(2.9)	**(4.8)**	(2.9)
Net cash outflows from financing activities	**(179.6)**	(53.2)	**(7.7)**	(5.8)
Net (decrease)/increase in cash	**(53.1)**	294.1	**(39.3)**	290.7
Cash and cash equivalents at beginning of year	**710.1**	416.0	**664.0**	373.3
Cash and cash equivalents at end of year	**657.0**	710.1	**624.7**	664.0

For the purposes of the statements of cash flows, cash and cash equivalents comprise the following balances with less than 90 days original maturity:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cash in hand (including Bank of England Reserve account)	**584.2**	636.9	**584.2**	636.9
Loans and advances to credit institutions	**72.8**	73.2	**40.5**	27.1
	657.0	710.1	**624.7**	664.0

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2023, amounted to £14.0m (2021/22: £15.1m). The movement in these balances is included within cash flows from operating activities.

The Group's loans and advances to credit institutions includes £31.1m (2021/22: £46.0m) of balances belonging to the Society's structured entities which are not available for general use by the Society.

Statements of Cash Flows (continued)

for the year ended 31 March 2023

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cash flows from operating activities				
Profit before tax	**31.8**	23.2	**15.7**	12.9
Adjustments for non-cash items included in profit before tax				
Impairment on loans and advances	**24.1**	8.1	**1.1**	(1.4)
Depreciation, amortisation and impairment	**7.7**	13.0	**7.7**	13.0
Disposal of property, plant and equipment	**-**	(0.1)	**-**	-
Revaluations of investment properties	**(6.0)**	(5.8)	**-**	-
Changes in provisions for liabilities	**-**	(0.1)	**-**	(0.1)
Provisions against investments in subsidiary undertakings	**-**	-	**14.3**	10.0
Interest on subordinated liabilities	**2.5**	2.5	**2.5**	2.5
Fair value losses/(gains) on equity release portfolio	**0.5**	(0.2)	**0.5**	(0.2)
Interest paid on lease liabilities	**-**	0.1	**-**	0.1
Changes in fair value	**40.0**	63.7	**26.3**	51.3
	100.6	104.4	**68.1**	88.1
Changes in operating assets and liabilities				
Loans and advances to customers	**343.3**	2.5	**177.3**	(85.7)
Loans and advances to credit institutions	**1.1**	(3.3)	**1.1**	(3.3)
Derivative financial instruments	**(52.9)**	(74.9)	**(53.1)**	(73.4)
Shares	**122.7**	(50.5)	**122.7**	(50.5)
Deposits and other borrowings	**(341.2)**	389.3	**(495.6)**	346.8
Trade and other receivables	**(8.5)**	0.4	**(8.7)**	0.5
Trade and other payables	**3.2**	1.8	**3.0**	1.5
Retirement benefit obligations	**(6.8)**	(4.2)	**(6.8)**	(4.2)
Tax received	**(0.2)**	0.2	**(0.2)**	0.2
Net cash inflow/(outflow) from operating activities	**161.3**	365.7	**(192.2)**	220.0

The notes on pages 98 to 165 form part of these accounts.

Notes to the Accounts

1. Accounting policies

The principal accounting policies applied consistently in the preparation of these consolidated Annual Accounts are set out below.

Basis of preparation

The Annual Accounts of the Group and the Society have been prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986. In addition to complying with international accounting standards in conformity with the requirements of the Building Societies Regulations, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Annual Accounts have been prepared under the historical cost convention as modified by the revaluation of fair value through other comprehensive income assets, derivatives, investment properties, property, plant and equipment and other financial assets at fair value through profit or loss.

The Annual Accounts are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest one hundred thousand.

Going concern

The Directors have prepared forecasts for the Group, including its capital position, for a period in excess of 12 months from the date of approval of these financial statements. The Directors have also considered the effect upon the Group's business, financial position, liquidity and capital of more pessimistic, but plausible, trends in its business using stress testing and scenario analysis techniques.

The Society's Medium Term Plan (MTP) has been updated to reflect the uncertainty in the UK economy. Through the Internal Capital Adequacy Assessment Process (ICAAP) the Society models the impact of the Bank of England's Annual Cyclical scenario on the Society's Capital position, throughout which a surplus over Total Capital Requirements is maintained. Through the Society's Internal Liquidity Adequacy Process (ILAAP) the Society models the impacts of severe but plausible liquidity stresses throughout which a surplus over minimum regulatory levels of liquidity is maintained. Scenarios tested showed that the Society would be able to continue as a going concern throughout the period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios. The resultant forecasts and projections therefore show that the Group will be able to operate at adequate levels of both liquidity and capital for at least the next 12 months.

The Directors, therefore, consider that the Society and Group have adequate resources to continue in operational existence for the next 12 months. Accordingly they continue to adopt the going concern basis in preparing the financial statements. For further details see page 58 of the Directors' Report.

New or amended accounting standards

There have been no changes to accounting standards in the period that have an impact on the Group's accounting policies. The International Accounting Standards Board (IASB) have issued a number of amendments and improvements to accounting standards with an effective date of 1 January 2023 and beyond. These are not expected to have a material impact on the Group's financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Society and its subsidiary undertakings.

Subsidiaries

Subsidiaries are all entities controlled by the Society. Under IFRS 10 'Consolidated Financial Statements' control is achieved where the Group has the power to govern the financial and operating policies of an entity, has the exposure or rights to the variable returns from the involvement with the entity, and is able to use its power to affect the amount of returns for the Group. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the results from the date that control commences until the date that control ceases.

The purchase method of accounting has been adopted, under which the results of subsidiary undertakings acquired or disposed of in a year are included in the Income Statement from the date of acquisition or up to the date of disposal. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Society, investments in subsidiary undertakings are carried at cost less any provisions for impairment.

Securitisation transactions

The Group has entered into securitisation transactions in which it sells mortgages to structured entities. Live mortgages were transferred and repayments on these remain due at the time of securitisation. Cash flows received from the mortgage repayments are transferred to the structured entity. However the Society has retained substantially all the risks and rewards including, but not limited to, holding the legal title of the mortgages. In accordance with IFRS 9 (and previously under IAS 39), the Group continues to recognise securitised assets as loans and advances to customers and consequently also shows a deemed loan liability to the structured entities. The deemed loans are included within amounts due to other customers. In subsequent periods, income from the securitised mortgages is recognised by the Group.

The equity of the structured entities created for these securitisations is not owned by the Group. However, to comply with IFRS 10 'Consolidated Financial Statements', the structured entities are included as subsidiaries in the consolidated financial statements, where certain criteria are met. The analysis of whether the criteria are met is subject to regular reassessment. Where IFRS 10 consolidation criteria are no longer met, securitised mortgage assets continue to be recognised with an offsetting deemed loan liability recorded in the Group financial statements.

Interest in unconsolidated structured entities - Group

As outlined further below, management has judged that the securitisation Sandwell Commercial Finance no. 1 plc and Sandwell Commercial Finance no. 2 plc no longer meet the consolidation criteria as set out in IFRS 10 'Consolidated Financial Statements'. The principal activities of the entities is that of holding non-core commercial mortgage portfolios – these being the assets that were transferred when the securitisations were established. Prior to deconsolidation, the deemed loan asset recorded in these entities was offset by an equal and opposite deemed loan liability in West Bromwich Commercial Limited (WBCL). Following deconsolidation, the deemed loan asset and external loan note liabilities recognised in these entities are no longer recognised in the Group financial statements. The deemed loan liability in WBCL is no longer eliminated and is recorded in the Group balance sheet. The deemed loan liability is continually revalued to reflect the impairment provisions held against the underlying commercial mortgages given the impairments are ultimately borne by the loan note holders as the Group is no longer exposed to the structure. In these entities, the Group has limited exposure to credit losses, with risk transferred in part to third party investors who have purchased loan note securities issued by the entities.

The table below indicates the interests in structured entities.

	31 March 2023				31 March 2022			
	Deemed loan balances	**Mortgages transferred**	**Notes held in structured entities**	**Maximum exposure to loss in unconsolidated structured entities**	Deemed loan balances	Mortgages transferred	Notes held in structured entities	Maximum exposure to loss in unconsolidated structured entities
Group	**6.3**	**6.4**	**0.5**	**0**	7.1	10.0	0.6	0

Segmental reporting

IFRS 8 'Operating Segments', requires operating segments to be identified on the basis of internal reports and components of the Group regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. In terms of the Group, the chief operating decision maker has been deemed to be the Board of Directors.

Each segment is determined according to the distinguishable operating component of the Group that is regularly reviewed by the Group's chief operating decision maker and for which discrete financial information is available.

Information regarding the results of each reportable segment is included in note 38.

Interest receivable and expense

Interest receivable and expense are recognised in the Income Statement for all instruments measured at amortised cost or fair value through other comprehensive income using the effective interest rate method. Interest income on defaulted loans categorised as 'stage 3' under IFRS 9 is recognised by applying the effective interest rate to the balances net of the provisions for expected credit losses.

Effective interest rate

The effective interest rate method is the method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows or receipts through the expected life of the instrument, or where appropriate, a shorter period, to its carrying amount. During the year, changes were made to the judgements applied for EIR calculations. As a result, from inception, mortgage products are treated as having distinct periods (initial and follow-on) and income in the follow-on period is recognised as it is received. In addition, where mortgage advances have upfront fees, such as application and arrangement fees, and costs, these are spread over the initial period.

1. Accounting policies (continued)

Fees and commissions receivable and payable

Fees and commissions are generally recognised on an accruals basis when the service has been provided. Mortgage arrangement fees and other direct costs are deferred and incorporated in the mortgage portfolio as part of the effective interest rate method. Commissions and fees arising from negotiating or participating in the negotiation of a transaction with a third party are recognised on completion of the underlying transaction.

Investment properties

Investment properties are properties held for long-term rental yields and capital appreciation. Investment properties are carried in the Statement of Financial Position at fair value, representing open market value determined annually and subject to review by independent specialist valuers. Changes in fair values are recorded in the Income Statement in accordance with IAS 40 (revised 2003). Leasehold properties held for long-term rental yields are classified as investment properties and carried at fair value.

Financial instruments

a) Financial assets

Under IFRS 9, financial assets are classified as amortised cost or fair value (through other comprehensive income or through profit or loss), based on the business model under which they are held and the characteristics of their contractual cash flows.

Amortised cost

Financial assets are measured at amortised cost if they are held for the purpose of collecting contractual cash flows ("held to collect" business model) and have contractual terms which give rise on specified dates to cash flows which are solely payments of principal and interest (SPPI) on the outstanding amount.

This category includes cash and balances with the Bank of England, loans and advances to credit institutions and the majority of the Group's loans and advances to customers. All of the Group's mortgage portfolios were originated or purchased for the purposes of collecting contractual cash flows. With the exception of the closed equity release portfolio, the contractual terms of the Group's mortgage books indicate that the cash flows to be collected comprise capital and interest on the outstanding balance.

For the Society, loans to subsidiary undertakings and holdings of certain investment securities issued by Group entities are also measured at amortised cost based on the business model and SPPI assessments. In the case of mortgage-backed securities, the SPPI criteria are only met where the underlying asset pools contain mortgages which are SPPI and the exposure to credit risk inherent in the tranches held by the Society is equal to or lower than the exposure to credit risk of the underlying mortgage pools.

Assets measured at amortised cost are initially recognised at fair value, being the cash consideration to originate or purchase the asset including any directly attributable transaction costs, and subsequently measured using the effective interest rate method.

Fair value through other comprehensive income (FVOCI)

Financial assets are classified as FVOCI where the associated business model objective is achieved by both collecting contractual cash flows and selling the assets ("held to collect and sell" business model). The contractual terms of FVOCI assets give rise on specified dates to cash flows which are solely payments of principal and interest on the outstanding balance.

This category comprises the Group's portfolio of investment securities held in order to meet current and future liquidity requirements and which have been assessed by the Group to be in a "held to collect and sell" business model. Consistent with the criteria for FVOCI, the Group collects contractual cash flows which, without exception, meet the IFRS 9 SPPI definition and periodically sells a proportion of the portfolio to evidence the liquidity of the investment assets. In the case of mortgage-backed securities, the SPPI criteria are only met where the underlying asset pools contain mortgages which are SPPI and the exposure to credit risk inherent in the tranches held by the Society is equal to or lower than the exposure to credit risk of the underlying mortgage pools.

FVOCI assets are initially recognised at fair value, which is the cash consideration including any directly attributable transaction costs, and measured subsequently at fair value. Gains and losses from changes in fair value are recorded in other comprehensive income via the fair value reserve, except for impairment losses which are recognised in the Income Statement. Gains or losses arising on sale, including any cumulative gains and losses previously recognised in other comprehensive income, are recognised in the Income Statement. Interest is calculated using the effective interest rate method.

The fair values of FVOCI assets are based on quoted prices or, if these are not available, valuation techniques developed by the Group. These include, but are not limited to, the use of discounted cash flow models, option pricing models and recent arm's length transactions.

Fair value through profit or loss (FVTPL)

Financial assets which do not meet the classification criteria to be held at amortised cost or FVOCI are measured at FVTPL.

This category includes derivative assets and the closed equity release portfolio (presented within loans and advances to customers). An assessment of the contractual terms of the equity release loans concluded that the SPPI criteria, which must be satisfied to carry an asset at amortised cost or FVOCI, were not met. In the Society's Statement of Financial Position, certain investment securities issued by Group structured entities are measured at FVTPL.

The fair values of derivatives are based on level 2 valuation techniques, as described in section (f) below. Changes in the fair value of derivative assets are presented within fair value gains/(losses) on financial instruments in the Income Statement offset, where the derivatives are hedging instruments in a qualifying IAS 39 fair value hedge relationship, by the fair value movements on the corresponding hedged items. Interest arising on derivative financial instruments is recognised within net interest on an accruals basis.

Due to the bespoke nature of equity release books, relevant market pricing data is not available. The fair value of the equity release portfolio is therefore determined using an internal discounted cash flow model which estimates the amount and timing of future cash flows arising on redemption and discounts these at assumed market rates to calculate the fair value of the mortgages. Model inputs are informed by a combination of the Society's historic experience (e.g. redemption rates) and economic forecast data (e.g. house price inflation indices). Under IFRS 13 'Fair Value Measurement' and Amendments to IFRS 7 'Financial Instruments: Disclosures', the fair value measurement of equity release mortgages is categorised as level 3.

An entity may, at initial recognition or on adoption of IFRS 9, make an irrevocable designation to measure a financial asset at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise if the asset were to be held at amortised cost or FVOCI. The Group and Society have not designated any financial assets as FVTPL on adoption of IFRS 9 or subsequently.

b) Financial liabilities

In accordance with IFRS 9, all of the Group and Society's financial liabilities are classified and subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss.

Amortised cost

This category includes shares, amounts due to credit institutions, amounts due to other customers, debt securities in issue and subordinated liabilities.

Liabilities subsequently measured at amortised cost are recognised initially at fair value, being the issue proceeds, net of premia, discounts and directly attributable transaction costs incurred. They are subsequently measured at amortised cost using the effective interest rate method.

Fair value through profit or loss (FVTPL)

This category includes derivative liabilities for which changes in fair value are presented within fair value gains/(losses) on financial instruments in the Income Statement offset, where the derivatives are hedging instruments in a qualifying IAS 39 fair value hedge relationship, by the fair value movements on the corresponding hedged items. Interest arising on derivative financial instruments is recognised within net interest on an accruals basis.

The fair values of derivative liabilities are determined in accordance with the three tier valuation hierarchy as defined within IFRS 13 'Fair Value Measurement' and in section (f) below.

An entity may, at initial recognition or on adoption of IFRS 9, make an irrevocable designation to measure a financial liability (that would otherwise be held at amortised cost) at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency. The Group and Society have not designated any financial liabilities as FVTPL on adoption of IFRS 9 or subsequently.

c) Impairment of financial assets

Expected credit losses (ECLs) are recognised for all financial assets carried at amortised cost or FVOCI under IFRS 9, and also for undrawn loan commitments where a mortgage offer has been made but the loan is yet to be advanced and recognised in the Statement of Financial Position.

The year end modelled ECL has been updated where necessary, for example:

- Account level assumptions for commercial provisions have been refined to reflect the latest developments on an individual account level. Factors such as strategy, rental cover and exit value valuation assumptions have been considered when informing these decisions.

- The macroeconomic scenarios have been updated to reflect the latest economic position in the UK at the reporting date, including assumptions of the cost of living challenges, interest rates and house price movements.

A number of overlays have been recorded at the year end, detailed below:

- Combustible materials overlay – exposures attached to flats where there is a risk of the presence of combustible materials which may result in reduced valuations and/or an inability for borrowers to repay. In calculating the overlay a tiered increase in the Probability of Default (PD) based on risk categorisation as set out by RICS has been assumed, together with costs of remedial work, leading to an overlay of £1.6m (2020/22: £1.8m).

- PD overlays of £1.7m (2021/22: £0.3m) have been recorded as PDs are considered to be understated in the historic data under certain macroeconomic scenarios. PDs have been further uplifted on accounts deemed to be most at risk from cost of living challenges due to stretched affordability.

- The second charge book consists of legacy lending and it is anticipated that, for a proportion of accounts, underlying credit issues may exist which are not reflected in our models. We therefore reflect an overlay for the impact of moving a proportion of loans from Stage 1 to Stage 2 of £0.2m (2021/22: £0.2m).

1. Accounting policies (continued)

Staging

At each reporting date, financial assets subject to the impairment requirements of IFRS 9 are categorised into one of three stages:

Stage 1

On initial recognition, financial assets which are not credit impaired and have not experienced a significant increase in credit risk (SICR) since initial recognition are categorised as stage 1 and provision is made for 12 month ECLs, being the losses from default events expected to occur within the next 12 months. Assets remain in stage 1 until such time as they meet the criteria for another stage or are derecognised.

Stage 2 (significant increase in credit risk)

Financial assets which are not in default, but have experienced a significant increase in credit risk (SICR) since initial recognition, are categorised as stage 2. The loss allowance recognised is equivalent to lifetime ECL, being the loss arising from default events expected to occur over the lifetime of the financial asset.

Determining whether a SICR has occurred is a critical aspect of the IFRS 9 methodology and one which involves judgement, based on a combination of quantitative and qualitative measures. As described in the ECL calculation sections which follow, the criteria applied vary across portfolios depending on the nature of the portfolio and availability of relevant credit risk information but all include the IFRS 9 'backstop' of 30 days past due as a stage 2 trigger.

Stage 3 (default)

Defaulted or credit-impaired financial assets are categorised as stage 3, requiring recognition of lifetime ECLs.

Transfers to lower stages (curing)

Financial assets in stages 2 or 3 can transfer back to stages 1 or 2, respectively, once the criteria for SICR or default cease to be met for a period of time defined within the ECL methodology for that portfolio, sometimes known as the 'cure' period. In practice, this means that a stage 2 or 3 loan which ceases to breach the threshold(s)/criteria for that stage will remain in the higher stage for a pre-determined number of months. The use of cure periods gives assurance that accounts have rehabilitated before re-entering lower stages and reduces the level of volatility that might otherwise arise from accounts regularly migrating between stages.

Forward-looking ECL approach

ECL is measured as the present value of the difference between the cash flows contractually due on a financial asset or undrawn commitment and the cash flows expected to be received. In the Statement of Financial Position, the loss allowance is presented as a reduction in the carrying value of the financial asset. In the case of an undrawn loan commitment, the impairment provision is instead presented within provisions for liabilities.

For each of the Group and Society's financial asset portfolios in the scope of IFRS 9 impairment, the estimate of ECL is unbiased and weighted to take into account a range of possible outcomes.

In accordance with IFRS 9, forecasts of future economic conditions are integral to the ECL calculations for each portfolio. The Group currently models four forward-looking macroeconomic scenarios: a central forecast with economic assumptions aligned to the Society's Medium Term Plan (and therefore assigned the highest weighting), together with upside, downside and stress scenarios. The scenarios have been updated with due regard to the latest market data available following developments associated with the pandemic.

ECL calculation – core residential mortgages

For the core residential mortgage books, the impairment model employs industry-accepted statistical techniques to address the complex requirements of IFRS 9, with model assumptions and parameters initially determined by regression analysis of historical default data. The assumptions are validated using 'out of time' samples, across a range of economic scenarios, enabling the predictive capabilities of the models to be confirmed.

The model incorporates quantitative factors for identifying a SICR by comparing reporting date lifetime probability of default (PD) with residual origination lifetime PD. For the purposes of this quantitative staging assessment, mortgages are segmented by lending type (owner occupied or buy to let). Residual origination PD curves and (relative and absolute) threshold levels are established via an iterative process involving statistical analysis of the Group's default data. In addition, a range of internally monitored potential impairment indicators has been selected as qualitative criteria for classifying an individual loan as stage 2. Examples of qualitative indicators include cancelled direct debit instructions, certain forbearance measures and evidence of impaired credit history obtained from external agencies.

The default criteria for core residential loans are entirely aligned with those used for capital and credit risk management purposes. Loans are considered to be in default or credit-impaired if they are in arrears by three or more months, in litigation, possession or LPA receivership, or meet one of a range of internal 'unlikely to pay' indicators.

Within the core residential model, ECL is calculated by multiplying the forward-looking PD, exposure at default (EAD) and loss given default (LGD). The model outputs monthly ECLs, which are aggregated over the first 12 months to obtain 12 month ECL and over the life of the loan to calculate lifetime ECL.

The model combines a number of account-specific variables and forecasts of future economic conditions within the calculation of PD. Macroeconomic variable inputs to the model are reviewed quarterly and include house price index (HPI), interest rates, unemployment and GDP. The variables were selected based on statistical tests and other analysis which evidenced their correlation with credit risk.

The core residential impairment model aligns the Group's capital and accounting approaches to the estimation of credit losses as closely as possible.

ECL calculation – undrawn commitments

The loss allowance for undrawn commitments is inferred from the core residential mortgage impairment model outputs for existing loans with similar risk characteristics.

All undrawn commitments are currently allocated to stage 1 such that a 12-month ECL calculation is appropriate.

The Group's IFRS 9 provision requirements for undrawn commitments at 31 March 2022 and 31 March 2023 were negligible.

ECL calculation – second charge residential mortgages

For the closed second charge loan book, a SICR is assessed using external credit agency PD indicators. Absolute thresholds have been set based on analysis of monthly PD scores from origination (or earliest available date) to point of default.

Second charge mortgages are considered to be in default if they are in arrears by three or more months or in bankruptcy, litigation or possession.

Impairment provisions for the closed second charge mortgage book are determined using a simple discounted cash flow model which segregates accounts by payment status. Estimated future cash flows, which consider the forced sale property valuation and level of first charge debt remaining, are discounted to their present value using the effective interest rate of the loan and compared with the account balance at the reporting date. This estimated loss on possession is multiplied by the probability of possession occurring to calculate the ECL requirement.

The key macroeconomic variable affecting the level of second charge impairment losses is HPI, as forecast within the Group's central, upside, downside and stress scenarios.

ECL calculation – commercial mortgages

The key indicator of a SICR for a commercial loan is a downward migration in internal credit rating, determined via an established internal credit risk assessment process. The internal grade is determined at an individual account level, combining expert judgement with prescriptive measures including, but not limited to, loan to value and income/debt service coverage ratios.

Commercial loans are categorised as default if an LPA Receiver (or equivalent) has been appointed, if they are in arrears by greater than or equal to three months, and/or are past scheduled maturity (unless past maturity by no more than 3 months and active negotiations to extend are in progress with the customer). Loans not meeting these criteria may be classified as stage 3 based on expert management judgment of the perceived risk of non-payment.

The ECL requirements for commercial mortgages are assessed on an individual loan basis, with the right to off-setting ECL requirements where cross-collateralisation exists between connected commercial mortgages, using cash flow scenario modelling. This involves estimating the timing and amount of future cash flows, in the event of default, for one or more probability weighted account-specific scenarios based on the Group's central forecast of economic conditions. Applying the Group's macroeconomic scenarios effectively creates a range of alternative outcomes in addition to the central forecast.

Estimated future cash flows, comprising rental receipts and final sales proceeds (each net of costs), are discounted at the effective interest rate of the loan and compared with its carrying value to determine the ECL under each combination of account-specific and macroeconomic scenarios. The relevant macroeconomic weightings are then applied to calculate the overall provision requirement at the reporting date.

ECL calculation – liquid assets

For liquid assets, comprising cash and balances with the Bank of England, loans and advances to credit institutions and investment securities, a SICR is determined by counterparty type and adverse movements in counterparty credit rating beyond specified thresholds. None of the Group's liquid assets are categorised as stage 2 at the reporting date.

Liquid assets are in default if categorised as such by external credit rating agencies. The Group has never experienced an impairment loss or default on its Treasury investment portfolio.

The ECL calculation for liquid assets multiplies the carrying value of the asset by a PD applicable to its credit rating at the reporting date. The PD is obtained from publicly available external credit rating agency data tables. The macroeconomic weighted scenarios are translated to shifts in counterparty credit ratings thereby changing the PDs applied in the calculation.

The Group's liquid asset provision requirements at 31 March 2022 and 31 March 2023 were negligible.

Write off of financial assets

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

d) Derecognition of financial assets and liabilities

The Group's policy is to derecognise financial assets when the contractual right to the cash flows from the financial asset expires. The Group also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

1. Accounting policies (continued)

e) Modification of contractual cash flows

The Group may, in certain circumstances, renegotiate or otherwise modify the contractual cash flows of loans and advances to customers. If qualitative assessments conclude that the new cash flows are substantially different to the original cash flows, the original loan is derecognised and a new financial asset recognised in the Statement of Financial Position. If the modified cash flows are not substantially different, a modification gain or loss is recognised in profit or loss, calculated by adjusting the loan's gross carrying amount to the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

Where contractual terms are modified due to financial difficulties of the borrower (forbearance), the modification gain or loss is included within impairment on loans and advances; otherwise it is presented within interest receivable.

For residential mortgages, a change of product at the end of a fixed rate deal period is not considered to be a modification to the contract but instead a repricing to market interest rates which was envisaged at the start of the customer relationship.

f) Determination of fair value

The Group determines fair values by the three tier valuation hierarchy as defined within IFRS 13 'Fair Value Measurement' and Amendments to IFRS 7 'Financial Instruments: Disclosures'.

Level 1: For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, FTSE) and broker quotes (for example, from Bloomberg).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions in an orderly transaction between market participants. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

Level 2: For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, SONIA yield curve, volatilities and counterparty spreads) existing at the reporting dates.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as interest rate swaps. For these financial instruments, inputs into models are generally market observable.

Level 3: Fair value is determined using valuation techniques where significant inputs are not based on observable market data.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

g) Sale and repurchase agreements

Investment and other securities may be lent or sold subject to a commitment to repurchase them. Where substantially all of the risks and rewards of ownership remain with the Group, the securities are retained on the Statement of Financial Position. The counterparty liability is recognised separately in the Statement of Financial Position as appropriate. The difference between the sale and repurchase price is accrued over the life of the agreements.

h) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities.

In accordance with its Treasury and Financial Risk Management Policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments (both assets and liabilities) are initially recognised and subsequently held at fair value in the Statement of Financial Position with changes in their fair value going through the Income Statement. However, by applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives used to hedge particular risks can be offset in the Income Statement.

i) Fair value hedges – The Group undertakes hedges of the fair value of recognised assets or liabilities (fair value hedges) provided that certain criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest rate method is used, is amortised to profit or loss over the remaining expected life of the previously hedged item.

The Group documents, at the inception of any hedging transaction, the relationship between the hedging instrument and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

ii) Derivatives that do not qualify for hedge accounting – Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

i) Offsetting

Offsetting financial assets and financial liabilities are offset and the net amount presented within the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. There are no financial assets or liabilities which are offset within the Statement of Financial Position and all financial assets and liabilities are presented on a gross basis. Income and expenses are presented on a net basis only when permitted under IFRS.

Equity instruments

Equity instruments, comprising core capital deferred shares (CCDS), subscribed capital and, in previous years, profit participating deferred shares (PPDS) are financial instruments issued which do not give rise to a contractual obligation to deliver cash or another financial asset to the holder. Where such an obligation exists, the instrument is classified as a financial liability.

The proceeds of issuing equity instruments are recognised within equity, net of directly attributable costs and tax.

Distributions to holders of equity instruments are recognised directly in equity as a deduction from general reserves.

Intangible assets

Computer software

Computer software which is not an integral part of the related hardware is recorded as an intangible asset. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Intangible assets are held at amortised cost; amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of 3 to 10 years. Intangible assets are subject to regular impairment reviews. Costs associated with maintaining software are recognised as an expense when incurred.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, except the Head Office, is stated at valuation less depreciation. The Head Office building and plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All gains on the revaluation of property are recognised in the revaluation reserve when they arise. Freehold branches are revalued every 3 to 5 years by an independent firm of valuers.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method (unless otherwise stated) to allocate their cost less their residual values over their estimated useful lives, as follows:

Freehold branches	Up to 50 years
Head office	Up to 25 years
Leasehold improvements	Annual instalments over the period of the lease
Equipment, fixtures and fittings and motor vehicles	
• Office equipment	3 to 7 years
• Computer equipment	3 to 7 years
• Motor vehicles	25% per annum reducing balance
• Refurbishments	5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

1. Accounting policies (continued)

Leases

When the Group enters into a contract which conveys the right to control the use of an identified asset for a period of time in excess of 12 months in exchange for consideration, it recognises a right-of-use (ROU) asset and a corresponding lease liability in the Statement of Financial Position. The majority of the Group's leases relate to its branch property network.

The lease liability is measured at the present value of the remaining lease payments at the commencement date, discounted using the Group's incremental borrowing rate. The lease term incorporates lease extension or termination options where they are reasonably certain to be exercised. The incremental borrowing rate is determined with reference to the market pricing of securities with similar risk characteristics and terms to the leased assets at the commencement date. The carrying value of the lease liability is adjusted for interest charged and repayments. The lease liability is remeasured for changes in future lease payments, the lease term or the Group's assessment of whether it will exercise a lease extension or termination option. Any remeasurement results in a corresponding adjustment to the ROU asset. Interest is charged on the lease liability at the Group's incremental borrowing rate and recorded in interest expense and similar charges within the Income Statement.

The ROU asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for remeasurement of the corresponding lease liability. The initial measurement of the ROU asset includes the lease liability, initial direct costs, lease payments made prior to the commencement date and lease incentives received. It is subsequently depreciated using the straight line method over the shorter of the asset's estimated useful life and the period to the end of the lease term. ROU assets are subject to an annual impairment assessment.

As permitted by IFRS 16, the Group does not recognise a ROU asset or lease liability for leases of low value or with lease terms of less than 12 months. For these leases, payments are recognised on a straight line basis over the lease term and disclosed within administrative expenses in the Income Statement.

The Group has elected to separate its lease components and non-lease components for its property leases (e.g. service charges).

In the Statement of Cash Flows, payments of lease liabilities are categorised as cash flows from financing activities.

Where the Group acts as a lessor, these leases are treated as operating leases. The Group recognises lease payments received in line with receipt of payments in the Income Statement.

Determining the incremental borrowing rate used to discount the future lease payments involves a degree of estimation uncertainty. However, these judgements and estimates are not deemed critical, as they do not materially impact the financial statements.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash comprises cash in hand and loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with maturities of 90 days or less from the date of acquisition.

Taxation

Tax on the profit/loss for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income within the Statement of Comprehensive Income or directly in equity.

Current tax is the expected tax payable/receivable on the taxable income/expense for the year, using the tax rate which applies to the accounting period ending at the date of the Statement of Financial Position, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is determined using tax rates (and laws) that have been substantively enacted by the year end date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group, is a contingent liability. A contingent liability is disclosed but not recognised in the Statement of Financial Position.

Employee benefits

The Group provides both a defined benefit scheme (closed to new employees from 2002/3 and accruals from 2009/10) and a defined contribution scheme on behalf of staff and Directors. The defined benefit scheme is funded by contributions from the Society at rates assessed by independent actuaries. These contributions are invested separately from the Group's assets. The Scheme assets are measured at market value at each year end date and the liabilities are measured using the projected unit valuation method, by qualified actuaries, discounted using a corporate bond rate. The resulting pension scheme surplus or deficit is recognised in the Statement of Financial Position.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by the revised standard (IAS 19), actuarial gains and losses are recognised outside profit or loss in other comprehensive income, as an increase or decrease in general reserves.

Net interest, comprising interest income on plan assets less interest costs on scheme liabilities, and other expenses relating to the defined benefit pension scheme are recognised in the Income Statement. Actuarial gains or losses, that are gains or losses arising from differences between previous actuarial assumptions and actual experience, are recognised in the Statement of Comprehensive Income.

For defined contribution plans, the contributions are recognised as employee benefit expenses in the Income Statement when they are due, in accordance with the rules of the scheme. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Critical accounting estimates and judgements in applying accounting policies

In the process of applying accounting policies, the Group makes various judgements, estimates and assumptions which affect the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements in applying accounting policies

Impairment

For IFRS 9 impairment, judgement is required to define the staging criteria, i.e. what constitutes a significant increase in credit risk (stage 2) and what circumstances give rise to a default (stage 3). Where assets meet the stage 2 or 3 criteria, lifetime ECL must be recognised.

The staging methodologies for each portfolio are detailed within the "Impairment of financial assets" accounting policy in this note. Model monitoring and model validation procedures are used to continually evaluate the appropriateness of the staging criteria and macroeconomic variable inputs.

Securitisation transactions

In order to determine whether the Group controls a structured entity or not, the Group has to make judgements about the degree of control and assess the ability to make operational decisions for the structured entity in question. In many instances, elements are present that, when considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. When assessing whether the Group has to consolidate a structured entity it evaluates a range of factors following the rules and guidance of IFRS 10 'Consolidated Financial Statements'.

Where the Group has concluded that it does, in substance, control the entity to which financial assets have been transferred, the structured entity is included in these financial statements and the transferred assets are recognised in the Group's Statement of Financial Position. Where the securitised assets were originated by the Society they continue to be recognised in the Society's Statement of Financial Position. In the case of Sandwell Commercial Finance no. 1 plc and Sandwell Commercial Finance no. 2 plc, management judge that these entities no longer met consolidation criteria as set out in IFRS 10 'Consolidated Financial Statements'. In particular, the Group's limited exposure to credit losses in these entities (through deferred consideration and subordinated debt) has been fully written down, with little prospect of recovery, meaning that there is no longer any future exposure to variability of returns from these entities. As a result, these entities are no longer consolidated within the Group. Consequently the Group accounts do not include the results of these entities after deconsolidation.

Sources of estimation uncertainty

Impairment on loans and advances – forward-looking ECL approach

The estimation of ECLs is inherently uncertain and the IFRS 9 impairment models incorporate a number of assumptions and estimates, changes in which could materially affect the carrying amounts of assets and liabilities within the next financial year. The IFRS 9 requirements to incorporate forward-looking information within the ECL calculation, including forecasts of future macroeconomic conditions, necessitate judgement thereby increasing the potential for volatility in future periods.

The Group's impairment models incorporate four macroeconomic forecasts (central, upside, downside and stress), each comprising a number of economic variables considered to be credit risk drivers. As already explained, economic scenarios and weightings have been updated to reflect the changing economic conditions to which the Group is exposed.

Impairment on loans and advances - residential mortgages (core and second charge)

The following table indicates the main economic variables included within the IFRS 9 macroeconomic scenarios at 31 March 2023 and the associated weightings, along with the sensitivity to the total residential and commercial ECL provision arising from the application of 100% weightings to each scenario. The macroeconomic scenarios and associated weightings at 31 March 2022 are also provided for comparative purposes.

1. Accounting policies (continued)

Macroeconomic scenarios as at 31 March 2023:

	Scenario weighting		Current scenario (%) 2023/24	2024/25	5 year average	Increase/ (decrease) in provision with 100% scenario weighting (£m)	Increase/ (decrease) in provision with 10% increase in scenario weighting* (£m)
Central scenario	**60%**	Bank Rate	4.3	3.8	3.7	(6.3)	-
		HPI	(5.9)	(4.5)	(0.3)		
		Unemployment	4.3	4.7	4.7		
		GDP	(0.6)	0.0	(0.1)		
Upside scenario	**5%**	Bank Rate	4.5	3.5	3.4	(9.7)	(0.3)
		HPI	0.2	1.0	3.5		
		Unemployment	3.7	3.8	3.8		
		GDP	0.9	0.0	0.2		
Downside scenario	**25%**	Bank Rate	6.0	5.5	5.2	9.2	1.5
		HPI	(6.5)	(9.1)	(3.6)		
		Unemployment	5.8	6.9	6.5		
		GDP	(4.3)	(0.0)	(0.9)		
Stress scenario	**10%**	Bank Rate	5.3	0.1	1.1	19.9	2.6
		HPI	(10.4)	(15.2)	(4.5)		
		Unemployment	9.8	10.7	9.1		
		GDP	(7.5)	(0.0)	(1.5)		

*(increase in 10% weighting with a corresponding reduction in the central scenarios).

Macroeconomic scenarios as at 31 March 2022:

	Scenario weighting		Current scenario (%) 2022/23	2023/24	5 year average	Increase/ (decrease) in provision with 100% scenario weighting (£m)	Increase/ (decrease) in provision with 10% increase in scenario weighting* (£m)
Central scenario	**60%**	Bank Rate	1.3	2.0	1.6	(9.5)	-
		HPI	1.5	1.5	2.1		
		Unemployment	4.1	4.3	4.3		
		GDP	4.0	1.6	2.0		
Upside scenario	**5%**	Bank Rate	2.0	2.5	2.6	(12.4)	(0.3)
		HPI	6.3	4.1	4.5		
		Unemployment	3.9	3.6	3.1		
		GDP	5.7	2.9	3.0		
Downside scenario	**25%**	Bank Rate	3.0	4.0	3.2	14.0	2.4
		HPI	(10.8)	(8.5)	(3.4)		
		Unemployment	5.9	5.5	5.2		
		GDP	(2.0)	1.2	0.5		
Stress scenario	**10%**	Bank Rate	-	(0.1)	(0.1)	30.9	4.1
		HPI	(20.0)	(10.0)	(5.6)		
		Unemployment	12.0	10.0	8.8		
		GDP	(10.0)	-	-		

*(increase in 10% weighting with a corresponding reduction in the central scenarios).

Key assumptions for the residential portfolios are the weightings of the macroeconomic forecasts, which each incorporate a different outlook for the economic variables shown in the table above, the forecast of future house price inflation and the relative threshold used to identify a significant increase in credit risk. The sensitivity of the residential provision calculations to the key assumptions in the current and prior year is as follows:

Assumption	Change to current assumption	Increase/(Decrease) in impairment provision 2023 £m	Increase/(Decrease) in impairment provision 2022 £m
HPI growth	Increase of 5.0%	**(0.2)**	(0.2)
HPI growth	Decrease of 5.0%	**0.3**	0.3
Quantitative threshold for identifying a significant increase in credit risk	Relative decrease of 7%	**0.9**	0.8

Impairment on loans and advances - commercial mortgages

Consistent with residential mortgages, the IFRS 9 ECL calculation for the commercial portfolio incorporates central, upside, downside and stress economic scenarios with weightings of 60%, 5%, 25% and 10% respectively.

1. Accounting policies (continued)

In addition to the scenario weightings and account-specific factors that impact cash flows, the key model assumption for commercial provisioning is considered to be the exit yield requirement, which is used to estimate the cash flows arising from realisation of the property values on sale. While interest rates also have a significant impact on the ECL, via the discount factor applied in the model, compensating economic hedge arrangements would substantially offset the provision movement in profit or loss terms with an opposing fair value movement. Compared with the central economic forecast, the exit yield requirement for each loan increases by 0.9% and 2.0% in the downside and stress scenarios respectively and reduced by 0.2% in the upside scenario. This compares to an average exit yield of 8%.

The tables below illustrates the sensitivity of the commercial ECL calculation to the central scenario weighting and exit yield requirement.

Assumption	Change to current assumption	Increase/(Decrease) in impairment provision 2023 £m	Increase/(Decrease) in impairment provision 2022 £m
Exit yield requirement	Increase of 0.5% across all scenarios	1.9	2.7

Fair value of equity release mortgages
Under IFRS 9, the mature and closed book of equity release mortgages is held at FVTPL with fair values determined using a discounted cash flow model which incorporates a number of judgemental assumptions to determine the amount and timing of future cash flows arising on mortgage redemption. Certain model inputs, such as redemption rates, are informed by historic experience, with observed closure curves extrapolated to give an expected maturity profile for the remaining book. Other model assumptions, such as house price indices, are based on the Group's view of future economic conditions. The discount factor used to calculate the present value of the future cash flows has been determined with due regard to credit, market and liquidity risk.

Key sensitivities are in relation to HPI, discount rate and time to redemption as shown in the table below.

Assumption	Change to current assumption	(Decrease)/Increase in fair value loss 2023 £m	(Decrease)/Increase in fair value loss 2022 £m
HPI growth	Increase of 5.0%	(0.3)	(0.4)
HPI growth	Decrease of 5.0%	0.3	0.4
Discount rate	Increase of 0.25%	0.1	0.1
Time to redemption	Increase of 1 year	0.1	0.2

Investment properties
Independent specialist valuers have undertaken a valuation review of the portfolio of residential investment properties on an open market value for existing use basis, calculated on the net income allowing for reversionary potential. In making the judgment, consideration has been given to assumptions that are mainly based on market conditions existing at the Statement of Financial Position date. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. The calculation of the fair value of investment properties incorporates house price assumptions which are regularly reviewed by management.

If house prices were to change by 5%, the carrying value of the investment properties would change by £7.6m (2021/22: £7.4m) with a corresponding change to Gains on investment properties.

Pensions
The Group operates a defined benefit pension scheme. The year end valuation of the scheme assets and liabilities relies on estimates of future interest, inflation and mortality rates informed by external advice from the scheme actuaries. The main assumptions used in the valuation, together with sensitivity analysis of the impact of movements in key variables, are outlined in note 31 to the Accounts.

ECL calculation – investments in subsidiary undertakings
Investments in subsidiary undertakings comprise (minimal) share capital and intercompany loans. Intercompany loans are financial assets of the Society which are measured at amortised cost and therefore subject to the impairment requirements of IFRS 9.

For lending subsidiaries, a SICR is deemed to occur when the net assets of the subsidiary are lower than the amount owed to the Society, calling into question the recoverability of the amount owed to the Society. Where an impairment is recorded, the intercompany loan is categorised as stage 2; all other intercompany loans are recorded as Stage 1. The ultimate recovery of these amounts is linked to the recoverability of the underlying loans and advances, for which the ECL methodology, including related judgments and estimation techniques, has been provided above. The impairment provision requirement is reviewed periodically.

2. Interest receivable and similar income

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
On financial assets not at fair value through profit or loss:				
Loans fully secured on residential property	116.7	91.2	79.3	69.3
Other loans				
Connected undertakings	-	-	17.3	23.0
Loans fully secured on land	5.1	6.1	0.5	1.4
Investment securities	8.8	1.6	19.6	4.8
Other liquid assets	15.3	1.1	14.2	1.1
On financial assets at fair value through profit or loss:				
Loans fully secured on residential property	0.8	0.7	0.8	0.7
Net Income/(expense) on derivative financial instruments	27.5	(13.4)	26.0	(10.9)
Total interest receivable and similar income	174.2	87.3	157.7	89.4
Interest receivable includes:				
Income from fixed income securities	2.1	0.1	2.1	0.1

During the year ended 31 March 2023, the total interest receivable and similar income calculated using the effective interest method was: Group £137.1m (2021/22: £98.4m) and Society £122.1m (2021/22: £98.0m) for financial assets held at amortised cost, and Group £8.8m (2021/22: £1.6m) and Society £8.8m (2021/22: £1.6m) for financial assets held at fair value through other comprehensive income. Accrued interest on qualifying derivative financial instruments is recognised in interest receivable/payable depending on whether they hedge assets/liabilities respectively.

Included within interest receivable and similar income is interest accrued on impaired residential mortgage assets: Group £1.0m (2021/22: £1.2m) and Society £0.9m (2021/22: £0.5m) and interest accrued on impaired commercial mortgage assets: Group £4.3m (2021/22: £4.2m) and Society £nil (2021/22: £nil). For the purposes of this disclosure, impaired mortgage assets are those which have been categorised as stage 3 under IFRS 9.

3. Interest expense and similar charges

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
On financial liabilities not at fair value through profit or loss:				
Shares held by individuals	64.0	18.8	64.0	18.8
Deposits from banks and other deposits	22.6	2.6	22.7	2.8
Debt securities in issue	1.8	1.3	-	-
Subordinated liabilities	2.5	2.5	2.5	2.5
Deemed loans	(0.2)	-	2.0	4.1
Lease liabilities	-	0.1	-	0.1
On financial liabilities at fair value through profit or loss:				
Net income on derivative financial instruments	0.3	(0.1)	0.3	(0.1)
Total interest expense/(income) and similar charges	91.0	25.2	91.5	28.2

4. Other operating income

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Other operating income includes:				
Rent receivable on investment property	**7.3**	7.3	**-**	-
Operating expenses on investment property	**(3.3)**	(3.6)	**-**	-
Pension fund net interest (note 31)	**0.4**	-	**0.4**	-
Total other operating income	**4.4**	3.7	**0.4**	-

5. Fair value gains on financial instruments

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Fair value hedges				
Derivatives designated as fair value hedges	**40.9**	66.5	**40.9**	66.5
Adjustments to hedged items in fair value hedge relationships	**(40.1)**	(63.6)	**(40.1)**	(63.6)
Fair value gains on hedge accounting	**0.8**	2.9	**0.8**	2.9
Other derivatives	**6.4**	7.5	**7.0**	6.3
Financial instruments mandatorily at fair value through profit or loss	**(0.6)**	0.2	**(0.6)**	0.2
Total fair value gains on financial instruments	**6.6**	10.6	**7.2**	9.4

6. Administrative expenses

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Staff costs				
Wages and salaries	**23.4**	21.2	**22.8**	19.9
Social security costs	**2.2**	2.1	**2.2**	2.1
Other pension costs	**1.9**	1.8	**1.8**	1.7
Other administrative expenses	**12.4**	20.4	**11.4**	20.2
	39.9	45.5	**38.2**	43.9
Other administrative expenses include:				
Remuneration of auditors (excluding VAT element)				
Audit of these financial statements	**0.3**	0.3	**0.3**	0.3
Audit of the subsidiary financial statements	**0.1**	0.2	**-**	-

Wages and salaries include £0.1m (2021/22: £0.1m) redundancy costs paid as part of the restructuring and rationalisation undertaken during the year.

Other assurance services provided by the external auditors comprise £5,000 (2021/22: £5,000) in respect of audit-related assurance services and £nil (2021/22: £25,000) in respect of other assurance services, in each case excluding VAT.

7. Employee numbers

	Group and Society 2023	Group and Society 2022
The average number of employees employed throughout the year was:		
Full time	**435**	429
Part time	**198**	197
	633	626
Building Society		
Central administration (Society and subsidiaries)	**460**	458
Branches	**173**	168
	633	626

All employees were employed within the United Kingdom.

8. Directors' emoluments

Total Directors' emoluments including expenses amounted to £2,312m (2021/22: £1.879m). Full details are given in the Directors' Remuneration Report on pages 70 to 81.

9. Taxation

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
UK corporation tax at 19% (2021/22: 19%)	**1.9**	1.1	**4.4**	2.2
Corporation tax - adjustment in respect of prior years	**-**	-	**1.5**	2.1
Total current tax	**1.9**	1.1	**5.9**	4.3
Deferred tax				
Current year	**4.8**	3.0	**2.7**	1.7
Adjustment in respect of prior periods	**(1.4)**	(2.1)	**(1.4)**	(2.0)
Effect of changes in tax rates	**0.3**	(3.2)	**(0.1)**	(3.6)
Tax on profit on ordinary activities	**5.6**	(1.2)	**7.1**	0.4

UK corporation tax has been calculated at the applicable prevailing rate.

The tax charge is reconciled to the profit before tax in the Income Statement as follows:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Profit before tax	**31.8**	23.2	**15.7**	12.9
Profit before tax multiplied by the UK standard rate of tax of 19% (2021/22: 19%)	**6.0**	4.4	**3.0**	2.5
Effects of:				
Income not taxable and expenses not deductible for tax purposes	**0.1**	0.2	**2.8**	2.1
Changes to tax rate	**0.3**	(3.2)	**(0.1)**	(3.6)
Adjustment in respect of prior years	**(1.4)**	(2.1)	**0.1**	-
Transfer pricing adjustments	**-**	-	**1.3**	(0.6)
Deconsolidation adjustments	**0.1**	(0.2)	**-**	-
Write down/(utilisation and recognition) of deferred tax assets	**0.1**	(0.4)	**-**	-
Revaluation	**0.4**	0.1	**-**	-
Tax charge/(credit)	**5.6**	(1.2)	**7.1**	0.4

10. Cash and balances with the Bank of England

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Cash in hand	**1.4**	1.8	**1.4**	1.8
Cash ratio deposit with the Bank of England	**14.0**	15.1	**14.0**	15.1
Other deposits with the Bank of England	**582.8**	635.1	**582.8**	635.1
	598.2	652.0	**598.2**	652.0

Cash ratio deposits are mandatory deposits with the Bank of England which are not available for use in the Group's day-to-day operations. Cash in hand and the mandatory deposit with the Bank of England are non-interest bearing.

11. Investment securities

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Listed transferable investment securities:				
Fair value through other comprehensive income	**315.2**	286.4	**315.2**	286.4
Amortised cost	**-**	-	**370.6**	453.7
Fair value through profit or loss	**0.4**	0.5	**0.4**	0.5
Total investment securities	**315.6**	286.9	**686.2**	740.6

The movement in investment securities is summarised as follows:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
At beginning of year	**286.9**	276.5	**740.6**	785.4
Investment securities with maturities > 3 months at date of acquisition:				
Additions	**240.5**	101.9	**240.5**	101.9
Disposals (sale and redemption)	**(211.4)**	(90.5)	**(294.5)**	(145.7)
(Losses) from changes in fair value	**(0.4)**	(1.0)	**(0.4)**	(1.0)
At end of year	**315.6**	286.9	**686.2**	740.6

The Directors consider that the primary purpose for holding investment securities is as liquid assets with the intention of use on a continuing basis in the Group's activities.

12. Derivative financial instruments and hedge accounting

(a) Use of derivative financial instruments for interest rate risk management purposes

The Group is exposed to the risk that movements in interest rates change the value of, or income arising from, its assets and liabilities. This type of market risk is known as interest rate risk.

The Group has an integrated approach to interest rate risk management, taking advantage of natural hedges which exist within the Group Statement of Financial Position and using derivatives where no such natural hedges exist. Derivatives are financial instruments whose value is derived from one or more underlying price, rate or index (such as interest rates, exchange rates or stock market indices) but have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return, as cash flows are generally settled at a future date.

The derivatives currently held by the Group comprise interest rate swaps with highly rated counterparties. Counterparty credit risk is mitigated by the posting of collateral and the use of central clearing counterparties. In accordance with the Building Societies Act 1986, derivatives are solely used for risk mitigation and never for trading purposes. From an accounting perspective, where the IAS 39 criteria are met, the derivatives are designated as hedging instruments in fair value hedge relationships and hedge accounting is adopted. Otherwise, the derivatives are held as economic hedges and valued at fair value through profit or loss. The accounting policies for derivatives and hedge accounting are described in note 1 to the accounts.

The following table describes the significant activities undertaken by the Group, the associated risks, the type of derivatives typically used in managing such risks and related hedge relationships.

Activity	Risk	Derivative type	Hedge relationship	Hedge accounting
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Fair value hedge	Yes
Fixed rate investment securities	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Fair value hedge	Yes
Fixed rate savings products	Sensitivity to changes in interest rates	Receive fixed pay floating interest rate swaps	Fair value hedge	Yes
Commercial mortgage loss provisions	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Economic hedge	No

These arrangements have been established solely for the mitigation of interest rate risk. Other risks, such as credit risk, are separately managed but not hedged. The interest rate risk component of the hedge relationship is ascertained with reference to the benchmark rate of interest being hedged.

(b) Derivative financial instruments in the Statement of Financial Position

The following tables show the notional and carrying amounts of derivative financial instruments at the year-end date.

		Carrying value in the Statement of Financial Position	
Group	**Notional amount 2023 £m**	**Assets 2023 £m**	**Liabilities 2023 £m**
Interest rate swaps			
Designated as fair value hedges	**1,970.2**	**94.1**	**(5.5)**
Economic hedges	**284.4**	**6.4**	**(1.2)**
Total derivatives held for hedging purposes	**2,254.6**	**100.5**	**(6.7)**

		Carrying value in the Statement of Financial Position	
Group	Notional amount 2022 £m	Assets 2022 £m	Liabilities 2022 £m
Interest rate swaps			
Designated as fair value hedges	2,099.7	48.9	(8.3)
Economic hedges	656.7	3.5	(3.2)
Total derivatives held for hedging purposes	2,756.4	52.4	(11.5)

12. Derivative financial instruments and hedge accounting (continued)

Society	Notional amount 2023 £m	Carrying value in the Statement of Financial Position: Assets 2023 £m	Carrying value in the Statement of Financial Position: Liabilities 2023 £m
Interest rate swaps			
Designated as fair value hedges	**1,970.2**	**94.0**	**(5.5)**
Economic hedges	**284.4**	**6.5**	**(1.1)**
Total derivatives held for hedging purposes	**2,254.6**	**100.5**	**(6.6)**

Society	Notional amount 2022 £m	Carrying value in the Statement of Financial Position: Assets 2022 £m	Carrying value in the Statement of Financial Position: Liabilities 2022 £m
Interest rate swaps			
Designated as fair value hedges	2,099.7	48.9	(8.3)
Economic hedges	456.5	3.3	(3.1)
Total derivatives held for hedging purposes	2,556.2	52.2	(11.4)

(c) Hedge accounting

(i) Fair value hedges
Hedges of the fair value of recognised assets or liabilities are termed 'fair value hedges'. Under hedge accounting rules, changes in the fair value of derivatives (hedging instruments) are offset against changes in the fair value of hedged assets or liabilities (hedged items) in the Income Statement. The hedging ratio is the ratio of the notional value of the derivatives to the principal of the assets or liabilities being hedged.

(ii) Hedge effectiveness
For a fair value hedge of interest rate risk, hedge effectiveness is determined by comparing changes in the fair value of the derivative with changes in the fair value of the hedged asset or liability attributable to changes in interest rates.

The primary sources of ineffectiveness for the Society's fair value hedge relationships are:

- Differences in the timing of cash flows between the interest rate swaps and the hedged mortgages or savings products.
- Differences between actual and expected prepayment profiles of the hedged items.
- Differences between the contractual start dates and maturity dates of the derivatives and the hedged items.

(iii) Portfolio hedges
The Society designates fair value hedge relationships in which derivative financial instruments hedge a portfolio of fixed rate mortgages or savings products, reducing the Income Statement volatility that would otherwise arise from the derivatives being measured at fair value through profit or loss and the related hedged items at amortised cost.

The Society's hedging approach is dynamic, as the mortgage portfolios are constantly changing due to new advances, contractual repayments and early redemptions. To manage the interest rate risk inherent within fixed rate mortgage lending, the Society frequently enters into and closes interest rate swap arrangements. It assesses hedging ratios and hedge effectiveness on a monthly basis.

(iv) Derivatives not in a designated hedge relationship
In cases where the Group holds derivatives for hedging purposes, but the prescriptive IAS 39 criteria for application of hedge accounting are not met, the derivatives are held at fair value through profit or loss. Changes in the fair value of these derivatives are included within 'Fair value gains/(losses) on financial instruments' on the Income Statement.

The following tables analyse the notional value and average fixed rate of interest rate swaps in designated hedge relationships by contractual maturity date.

At 31 March 2023

Group and Society	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Fair value hedge of fixed rate residential loans				
Interest rate swap notional (£m)	129.6	478.3	1,279.3	39.7
Average fixed rate	0.88%	0.53%	1.41%	2.47%
Fair value hedge of fixed rate investment securities				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Fair value hedge of fixed rate savings products				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Group				
Fair value hedge of fixed rate commercial loans				
Interest rate swap notional (£m)	-	-	43.2	-
Average fixed rate	-	-	4.71%	-
Society				
Fair value hedge of intercompany loans*				
Interest rate swap notional (£m)	-	-	43.2	-
Average fixed rate	-	-	4.71%	-

At 31 March 2022

Group and Society	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Fair value hedge of fixed rate residential loans				
Interest rate swap notional (£m)	93.1	459.6	1,439.8	20.0
Average fixed rate	2.78%	0.98%	0.62%	1.81%
Fair value hedge of fixed rate investment securities				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Fair value hedge of fixed rate savings products				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Group				
Fair value hedge of fixed rate commercial loans				
Interest rate swap notional (£m)	-	30.6	21.5	34.9
Average fixed rate	-	10.07%	8.73%	10.03%
Society				
Fair value hedge of intercompany loans*				
Interest rate swap notional (£m)	-	30.6	21.5	34.9
Average fixed rate	-	10.07%	8.73%	10.03%

*The Society holds interest rate swaps to mitigate interest rate risk on commercial mortgages originated by its subsidiary West Bromwich Commercial Limited (WBCL). At Group level the derivatives and commercial mortgages are in designated IAS 39 hedge relationships. In the Society's individual financial statements, the interest rate swaps are held in a hedge relationship against intercompany loans with equivalent terms to the third party commercial mortgages.

12. Derivative financial instruments and hedge accounting (continued)

The impact of hedge accounting on the Group and Society Income Statement and Statement of Financial Position (SOFP) is indicated in the tables which follow.

Hedging instruments at 31 March 2023

Interest rate swaps Group and Society	**Notional amount £m**	**Carrying value in the SOFP Assets £m**	**Carrying value in the SOFP Liabilities £m**	**SOFP line**	**Change in fair value used for recognising ineffectiveness £m**	**Ineffectivess charge/(credit) in the Income Statement £m**	**Income Statement line**
Fair value hedge of fixed rate residential loans	1,926.9	94.0	(4.0)	Derivative financial instruments	34.4	(4.0)	Fair value gains on financial instruments
Fair value hedge of fixed rate investment securities	-	-	-	Derivative financial instruments	-	-	Fair value gains on financial instruments
Fair value hedge of fixed rate savings products	-	-	-	Derivative financial instruments	-	-	Fair value gains on financial instruments
Group							
Fair value hedge of fixed rate commercial loans	43.2	0.2	(1.5)	Derivative financial instruments	6.5	3.2	Fair value gains on financial instruments
Society							
Fair value hedge of intercompany loans*	43.2	0.2	(1.5)	Derivative financial instruments	6.5	3.2	Fair value gains on financial instruments

Hedging instruments at 31 March 2022

Interest rate swaps Group and Society	Notional amount £m	Carrying value in the SOFP Assets £m	Carrying value in the SOFP Liabilities £m	SOFP line	Change in fair value used for recognising ineffectiveness £m	Ineffectivess charge/(credit) in the Income Statement £m	Income Statement line
Fair value hedge of fixed rate residential loans	2,012.5	48.9	(0.2)	Derivative financial instruments	56.7	(1.7)	Fair value gains on financial instruments
Fair value hedge of fixed rate investment securities	-	-	-	Derivative financial instruments	-	-	Fair value gains on financial instruments
Fair value hedge of fixed rate savings products	-	-	-	Derivative financial instruments	-	-	Fair value gains on financial instruments
Group							
Fair value hedge of fixed rate commercial loans	87.0	0.1	(8.1)	Derivative financial instruments	9.8	(1.2)	Fair value gains on financial instruments
Society							
Fair value hedge of intercompany loans*	87.0	0.1	(8.1)	Derivative financial instruments	9.8	(1.2)	Fair value gains on financial instruments

Hedged items at 31 March 2023

Hedged assets and liabilities Group and Society	**Carrying value in the SOFP £m**	**Accumulated fair value adjustments £m**	**SOFP line**	**Change in fair value used for recognising ineffectiveness £m**
Fixed rate residential loans	1,830.1	(81.6)	Loans and advances to customers	(30.4)
Fixed rate investment securities	-	-	Investment securities	-
Fixed rate savings products	-	-	Shares	-
Group				
Fixed rate commercial loans	44.5	3.5	Loans and advances to customers	(9.7)
Society				
Intercompany loans*	44.5	3.5	Loans and advances to customers	(9.7)

Hedged items at 31 March 2022

Hedged assets and liabilities Group and Society	Carrying value in the SOFP £m	Accumulated fair value adjustments £m	SOFP line	Change in fair value used for recognising ineffectiveness £m
Fixed rate residential loans	1,973.4	(59.9)	Loans and advances to customers	(55.0)
Fixed rate investment securities	-	-	Investment securities	-
Fixed rate savings products	-	-	Shares	-
Group				
Fixed rate commercial loans	105.0	13.2	Loans and advances to customers	(8.6)
Society				
Intercompany loans*	105.0	13.2	Loans and advances to customers	(8.6)

*The Society holds interest rate swaps to mitigate interest rate risk on commercial mortgages originated by its subsidiary West Bromwich Commercial Limited (WBCL). At Group level the derivatives and commercial mortgages are in designated IAS 39 hedge relationships. In the Society's individual financial statements, the interest rate swaps are held in a hedge relationship against intercompany loans with equivalent terms to the third party commercial mortgages.

13. Loans and advances to customers

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Amortised cost				
Loans fully secured on residential property	**4,299.1**	4,592.1	**3,289.9**	3,449.1
Loans fully secured on land	**230.0**	320.3	**-**	16.2
	4,529.1	4,912.4	**3,289.9**	3,465.3
At fair value through profit or loss				
Loans fully secured on residential property	**8.6**	11.5	**8.6**	11.5
Loans fully secured on land	**-**	-	**-**	-
	4,537.8	4,923.9	**3,298.5**	3,476.8
Fair value adjustment for hedged risk	**(78.1)**	(38.0)	**(72.0)**	(45.8)
Less: impairment provisions	**(89.4)**	(107.6)	**(2.2)**	(1.5)
	4,370.3	4,778.3	**3,224.3**	3,429.5

Included within loans and advances to customers are £233.5m (2021/22: £348.5m) of commercial lending balances of which £6.4m (2021/22: £10.0m) have been sold by the Group to bankruptcy remote structured entities. A further £359.0m (2021/22: £637.2m) of residential mortgage balances, included within loans and advances, have also been sold by the Group to structured entities. The structured entities have been funded by issuing mortgage backed securities (MBSs), a proportion of which are held by the Society, at a carrying value of £371.2m (2021/22: £487.4m). Note 15 includes a list of the structured entities that are consolidated into the results of the Group.

14. Allowance for losses on loans and advances

Group	Group Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m	Society Loans fully secured on residential property £m
At 1 April 2022	7.7	99.9	**107.6**	**1.5**
Amounts written off	(0.5)	(41.3)	**(41.8)**	**(0.3)**
Charge for the year comprising:				
Provision for loan impairment	3.8	20.6	**24.4**	**1.3**
Change in carrying value of deemed loan	-	0.5	**0.5**	**-**
Adjustments to provisions resulting from recoveries	(0.8)	-	**(0.8)**	**(0.2)**
Charge for the year	3.0	21.1	**24.1**	**1.1**
Non-recourse finance on securitised advances	-	(0.6)	**(0.6)**	**-**
At 31 March 2023	**10.2**	**79.1**	**89.3**	**2.3**

Group	Group Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m	Society Loans fully secured on residential property £m
At 1 April 2021	11.8	91.9	103.7	2.5
Amounts written off	0.3	(4.7)	(4.4)	0.4
Charge for the year comprising:				
Provision for loan impairment	(3.6)	12.8	9.2	(0.8)
Change in carrying value of deemed loan	-	(0.2)	(0.2)	-
Adjustments to provisions resulting from recoveries	(0.8)	(0.1)	(0.9)	(0.6)
(Credit)/Charge for the year	(4.4)	12.5	8.1	(1.4)
Non-recourse finance on securitised advances	-	0.2	0.2	-
At 31 March 2022	7.7	99.9	107.6	1.5

During the year there were impairment gains of £0.5m (2021/22: £0.2m charge) against mortgages transferred to structured entities, Sandwell Commercial Finance No.1 Plc: £0.2m gain (2021/22: £0.1m gain) and Sandwell Commercial Finance No. 2 Plc: £0.3m gain (2021/22: £0.3m charge). The gains or losses from these impairments are borne by the external loan note holders as they exceed the first loss exposure held by the Group. Impairment provisions at the end of the year include nil (2021/22: £2.7m) against loans in structured entity, Sandwell Commercial Finance No. 2 Plc. The carrying value of the deemed loan has been adjusted by an equivalent amount. Non-recourse finance refers to the Notes issued by the securitised entites which represent obligations solely of the issuer. Non payment of these notes does not create any obligation for the Society or its affiliates.

15. Investments

Society	Shares in subsidiary undertakings 2023 £m	2022 £m	Loans to subsidiary undertakings 2023 £m	2022 £m	Total 2023 £m	2022 £m
Cost						
At beginning of year	**0.6**	0.6	**1,226.3**	1,270.8	**1,226.9**	1,271.4
Decrease for the year	**-**	-	**(116.7)**	(44.5)	**(116.7)**	(44.5)
At end of year	**0.6**	0.6	**1,109.6**	1,226.3	**1,110.2**	1,226.9
Provisions						
At beginning of year	**0.5**	0.5	**199.1**	189.1	**199.6**	189.6
Charge for the year	**-**	-	**14.3**	10.0	**14.3**	10.0
At end of year	**0.5**	0.5	**213.4**	199.1	**213.9**	199.6
Net book value at end of year	**0.1**	0.1	**896.2**	1,027.2	**896.3**	1,027.3

The Society's approach to the assessment of impairment against investments in subsidiary undertakings is discussed within the accounting policies for ECL loans. The value of the Society's investment in West Bromwich Commercial Limited has been assessed by comparison of the amount owed to the Society against the net assets of the subsidiary. Following continued contraction of the commercial mortgage book and the additional losses recognised within West Bromwich Commercial Limited, it has been necessary to write down the value of the investment by £12.6m (2021/22: £12.8m). An assessment has also been performed in respect of the value of the Society's investment in West Bromwich Mortgage Company Limited for which a charge of £1.7m has been recognised against the investment (2021/22: £2.8m credit).

The Society holds directly (unless otherwise stated) the following interests in key subsidiary undertakings, all of which are registered in England:

Name	Major activities	Class of shares held	Interest of Society
West Bromwich Mortgage Company Limited	Residential mortgage lending	Ordinary £1 shares	100%
West Bromwich Commercial Limited	Commercial mortgage lending	Ordinary £1 shares	100%
CL Mortgages Limited(1)	Residential mortgage lending	Ordinary £1 shares	100%
West Bromwich Homes Limited	Investment in property for rental	Ordinary £1 shares	100%
Insignia Finance Limited	Holding company	Ordinary £500 shares	100%
White Label Lending Limited(2)	Second charge lending	Ordinary £1 shares	100%

(1) The assets and liabilities held by CL Mortgages were transferred into WBMC on 30 March 2023. CL Mortgages ceased to trade on that date.

(2) The entire share capital of White Label Lending Limited is held by Insignia Finance Limited.

The registered office of the subsidiary undertakings listed above is the Group's registered office as detailed in note 37.

Securitisation entities
The results of the following securitisation entities are consolidated into the results of the Group under the rules and guidance of IFRS 10:

Name	Country of incorporation	Principal activity
Hawthorn Asset Co Limited	United Kingdom	Securitisation entity
Hawthorn Finance Limited	Jersey	Securitisation entity
Kenrick No. 3 Holdings Limited	United Kingdom	Holding company
Kenrick No. 3 Plc	United Kingdom	Securitisation entity
Kenrick No.4 Holdings Limited	United Kingdom	Holding company
Kenrick No.4 Plc	United Kingdom	Securitisation entity - non trading

The registered office of Hawthorn Asset Co Limited is Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

The registered office of Hawthorn Finance Limited is 26 New Street, St. Helier, Jersey, JE2 3RA.

The registered office of Kenrick No. 3 Plc, Kenrick No. 3 Holdings Limited, Kenrick No.4 Plc and Kenrick No.4 Holdings Limited is 11th Floor 200 Aldersgate Street, London, EC1A 4HD.

The registered office of Kenrick No. 3 Plc is 40a Station Road, Upminster, Essex, RM14 2TR.

Kenrick No.3 plc was dissolved on 9 February 2023.

Kenrick No.4 Plc and Kenrick No.4 Holdings Limited did not trade during the year and were both dormant.

The Society has no shareholdings in any of the companies listed above. Unless stated otherwise above, all are incorporated in the United Kingdom and operate in Great Britain.

16. Intangible assets

Group	Goodwill 2023 £m	Purchased software 2023 £m	Development costs 2023 £m	Total 2023 £m	Goodwill 2022 £m	Purchased software 2022 £m	Development costs 2022 £m	Total 2022 £m
Cost								
At beginning of year	**0.5**	**19.3**	**26.2**	**46.0**	0.5	18.7	28.2	47.4
Additions	**-**	**-**	**5.5**	**5.5**	-	0.6	3.6	4.2
Write off of previously capitalised costs	**-**	**-**	**(3.1)**	**(3.1)**	-	-	(5.6)	(5.6)
At end of year	**0.5**	**19.3**	**28.6**	**48.4**	0.5	19.3	26.2	46.0
Aggregate amortisation								
At beginning of year	**0.5**	**15.4**	**19.9**	**35.8**	0.5	14.1	16.5	31.1
Charge for the year	**-**	**0.6**	**3.3**	**3.9**	-	1.3	3.4	4.7
Disposals	**-**	**-**	**(1.2)**	**(1.2)**	-	-	-	-
At end of year	**0.5**	**16.0**	**22.0**	**38.5**	0.5	15.4	19.9	35.8
Net book value at end of year	**-**	**3.3**	**6.6**	**9.9**	-	3.9	6.3	10.2
Net book value at beginning of year	**-**	**3.9**	**6.3**	**10.2**	-	4.6	11.7	16.3

Society	Goodwill 2023 £m	Computer software 2023 £m	Development costs 2023 £m	Total 2023 £m	Goodwill 2022 £m	Computer software 2022 £m	Development costs 2022 £m	Total 2022 £m
Cost								
At beginning of year	**-**	**19.3**	**26.2**	**45.5**	-	18.7	28.2	46.9
Additions	**-**	**-**	**5.5**	**5.5**	-	0.6	3.6	4.2
Write off of previously capitalised costs	**-**	**-**	**(3.1)**	**(3.1)**	-	-	(5.6)	(5.6)
At end of year	**-**	**19.3**	**28.6**	**47.9**	-	19.3	26.2	45.5
Aggregate amortisation								
At beginning of year	**-**	**15.4**	**19.9**	**35.3**	-	14.1	16.5	30.6
Charge for the year	**-**	**0.6**	**3.3**	**3.9**	-	1.3	3.4	4.7
Disposals	**-**	**-**	**(1.2)**	**(1.2)**	-	-	-	-
At end of year	**-**	**16.0**	**22.0**	**38.0**	-	15.4	19.9	35.3
Net book value at end of year	**-**	**3.3**	**6.6**	**9.9**	-	3.9	6.3	10.2
Net book value at beginning of year	**-**	**3.9**	**6.3**	**10.2**	-	4.6	11.7	16.3

Write off of previously capitalised costs (£3.1m) predominantly relates to the development of a new online savings platform (2021/22: £5.6m). The decision was taken not to progress this development further during the year.

17. Investment properties

	Group 2023 £m	Group 2022 £m
Valuation		
At beginning of year	**147.3**	143.0
Additions	**1.5**	0.5
Disposals	**(2.1)**	(2.0)
Revaluation gains	**6.0**	5.8
At end of year	**152.7**	147.3

The Group applies the fair value model to its investment property portfolio.

Management have engaged independent specialist valuers to undertake a valuation review of the residential investment properties held by West Bromwich Homes Limited. with adjustments made by management as necessary.

This fair value measurement is categorised as a Level 3 fair value measurement, based on an assessment of the inputs to the valuation methodology, as described in Note 1f (2022: Level 3).

If the investment properties were carried at cost, the carrying amount would be £81.4m (2021/22: £82.6m).

The Group leases investment properties to non-commercial individuals for a contract period of up to 36 months. The future minimum lease receipts under non-cancellable operating leases that end within 12 months are £2.5m (2021/22: £2.4m), and an additional £2.7m up to 36 months (2021/22: £2.4m). The Group has not recognised any contingent rent in the period (2021/22: £nil).

18. Property, plant and equipment

	Land and buildings					
Group	**Freehold branches £m**	**Head Office £m**	**Leasehold improvements £m**	**Equipment, fixtures, fittings and vehicles £m**	**Right-of-use assets £m**	**Total £m**
Cost or valuation						
At 1 April 2022	4.9	21.2	0.6	20.1	2.9	**49.7**
Additions	-	-	-	0.8	-	**0.8**
Revaluation	0.1	-	-	-	-	**0.1**
Lease modifications and remeasurements	-	-	-	-	0.3	**0.3**
At 31 March 2023	**5.0**	**21.2**	**0.6**	**20.9**	**3.2**	**50.9**
Accumulated depreciation						
At 1 April 2022	0.5	5.5	0.4	19.3	1.2	**26.9**
Charge for the year	0.1	1.0	-	0.5	0.3	**1.9**
Revaluation	(0.6)	-	-	-	-	**(0.6)**
At 31 March 2023	**-**	**6.5**	**0.4**	**19.8**	**1.5**	**28.2**
Net book value						
At 31 March 2023	**5.0**	**14.7**	**0.2**	**1.1**	**1.7**	**22.7**

	Land and buildings					
Group	Freehold branches £m	Head Office £m	Leasehold improvements £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost or valuation						
At 1 April 2021	4.9	21.2	1.2	20.0	2.7	50.0
Additions	-	-	-	0.4	-	0.4
Lease modifications and remeasurements	-	-	-	-	0.2	0.2
Disposals	-	-	(0.6)	(0.3)	-	(0.9)
At 31 March 2022	4.9	21.2	0.6	20.1	2.9	49.7
Accumulated depreciation						
At 1 April 2021	0.4	4.7	0.9	18.3	0.8	25.1
Charge for the year	0.1	0.8	0.1	1.3	0.4	2.7
Disposals	-	-	(0.6)	(0.3)	-	(0.9)
At 31 March 2022	0.5	5.5	0.4	19.3	1.2	26.9
Net book value						
At 31 March 2022	4.4	15.7	0.2	0.8	1.7	22.8

18. Property, plant and equipment (continued)

Society	Land and buildings					
	Freehold branches £m	Head Office £m	Leasehold improvements £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	**Total £m**
Cost or valuation						
At 1 April 2022	4.9	21.2	0.6	19.9	2.9	**49.5**
Additions	-	-	-	0.7	-	**0.7**
Revaluation	0.1	-	-	-	-	**0.1**
Lease modifications and remeasurements		-	-	-	0.3	**0.3**
At 31 March 2023	**5.0**	**21.2**	**0.6**	**20.6**	**3.2**	**50.6**
Accumulated depreciation						
At 1 April 2022	0.5	5.7	0.4	18.9	1.2	**26.7**
Charge for the year	0.1	0.9	-	0.5	0.3	**1.8**
Revaluation	(0.6)	-	-	-	-	**(0.6)**
At 31 March 2023	**-**	**6.6**	**0.4**	**19.4**	**1.5**	**27.9**
Net book value						
At 31 March 2023	**5.0**	**14.6**	**0.2**	**1.2**	**1.7**	**22.7**

Society	Land and buildings					
	Freehold branches £m	Head Office £m	Leasehold improvements £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost or valuation						
At 1 April 2021	4.9	21.2	1.2	19.8	2.7	49.8
Additions	-	-	-	0.4	-	0.4
Lease modifications and remeasurements	-	-	-	-	0.2	0.2
Disposals	-	-	(0.6)	(0.3)	-	(0.9)
At 31 March 2022	4.9	21.2	0.6	19.9	2.9	49.5
Accumulated depreciation						
At 1 April 2021	0.4	4.9	0.9	17.9	0.8	24.9
Charge for the year	0.1	0.8	0.1	1.3	0.4	2.7
Disposals	-	-	(0.6)	(0.3)	-	(0.9)
At 31 March 2022	0.5	5.7	0.4	18.9	1.2	26.7
Net book value						
At 31 March 2022	4.4	15.5	0.2	1.0	1.7	22.8

The average remaining term of right-of-use assets at 31 March 2023 was 5.0 years (2021/22: 4.6 years).

The net book value of land and buildings occupied for the Society's own activities at 31 March is £19.8m (2021/22: £20.1m).

The Group's freehold branches were revalued at 31 March 2023 by Colliers International, a firm of independent chartered surveyors. The valuations were undertaken in accordance with the Valuation Standards issued by the Royal Institution of Chartered Surveyors in the United Kingdom. These valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. This fair value measurement is categorised as a Level 3 fair value measurement in the current year as described in Note 1f (2022: Level 3).

If land and buildings were carried at historical cost less depreciation, the carrying amount would be £17.3m (2021/22: £16.5m).

As part of the ongoing funding agreement for the West Bromwich Building Society Staff Retirement Scheme (the SRS), the Trustees of the SRS have been granted a charge over the Society's Head Office. The charge may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS.

19. Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 25% (2021/22: 19% or 25% (depending on when the deferred tax balance was estimated to reverse)). The movement on the deferred tax account is as follows:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
At beginning of year	**12.4**	13.7	**12.7**	12.3
Current year Income Statement (charge)/credit	**(5.1)**	0.2	**(2.6)**	2.0
Amount recognised directly in other comprehensive income	**0.9**	(3.6)	**0.9**	(3.6)
Adjustments in respect of prior years	**1.4**	2.1	**1.4**	2.0
At end of year	**9.6**	12.4	**12.4**	12.7

Deferred tax assets and liabilities are attributable to the following items:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Deferred tax assets				
Accelerated tax depreciation	**8.2**	9.0	**8.0**	8.9
Carried forward tax losses	**11.6**	12.1	**8.0**	8.3
Other temporary differences	**5.2**	6.0	**1.0**	1.2
	25.0	27.1	**17.0**	18.4
Deferred tax liabilities				
Property valuations	**(11.8)**	(9.9)	**(1.0)**	(0.9)
Other temporary differences	**(0.9)**	(1.1)	**(0.9)**	(1.1)
Pensions and other post retirement benefits	**(2.7)**	(3.7)	**(2.7)**	(3.7)
	(15.4)	(14.7)	**(4.6)**	(5.7)

The deferred tax (charge)/credit in the Income Statement comprises the following temporary differences:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Accelerated tax depreciation	**(0.8)**	3.6	**(0.8)**	3.6
Other provisions	**(0.7)**	0.2	**-**	(0.1)
Carried forward tax losses	**(0.4)**	1.7	**(0.4)**	0.4
Property valuations	**(1.8)**	(3.3)	**-**	-
	(3.7)	2.2	**(1.2)**	3.9

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable over the foreseeable future. The deferred tax asset balances attributable to carried forward losses are expected to be substantially recovered against future taxable profits (as projected in the latest Strategic Plan) within five years. The assumptions surrounding future expected credit losses and increases in the Bank Rate of interest represent the most subjective areas of judgement in management's projections of future taxable profits. The deferred tax assets have not been discounted. Unused tax losses, which have not been recognised within deferred tax assets at 31 March 2023, amounted to Group: £23.0m (2021/22: £27.8m) and Society: £nil (2021/22: £nil). These losses, which are trading losses, will be available to offset against future taxable profits, subject to certain loss restriction rules set by HMRC.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to do so.

The Budget on 3 March 2021 announced an increase to the UK's main corporation tax rate to 25%, which is effective from 1 April 2023. This change was substantively enacted at the balance sheet date and hence the Group's deferred tax balances have been measured dependant on the expected utilisation of the deferred tax assets/liabilities.

20. Trade and other receivables

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Prepayments and accrued income	**10.3**	1.9	**10.3**	1.9
Other	**0.4**	0.3	**0.4**	0.2
	10.7	2.2	**10.7**	2.1

21. Shares

	2023 £m	2022 £m
Group and Society		
Held by individuals	**4,305.2**	4,182.5
Other shares	**1.1**	1.1
	4,306.3	4,183.6

22. Amounts due to other customers

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Deemed loans	**6.3**	7.1	**-**	154.7
Other customers	**56.8**	107.5	**56.8**	107.6
	63.1	114.6	**56.8**	262.3

23. Debt securities in issue

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Non-recourse finance on securitised advances	**-**	171.2	**-**	-
	-	171.2	**-**	-

The non-recourse finance comprised mortgage backed floating rate notes (the Notes) secured over portfolios of mortgage loans secured by first charges over residential and commercial properties in the United Kingdom (see note 13).

For the purposes of the Statements of Cash Flows, debt securities in issue are classified as liabilities arising from financing activities. The following table analyses movements in debt securities in issue.

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
At beginning of year	**171.2**	217.9	**-**	-
Financing cash flows				
Repayments of debt securities in issue	**(172.0)**	(47.4)	**-**	-
Non-cash flows:				
Amortisation	**0.7**	0.5	**-**	-
Other movements	**0.1**	0.2	**-**	-
At end of year	**-**	171.2	**-**	-

24. Trade and other payables

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Accruals	**11.0**	8.6	**10.4**	7.8
Lease liabilities	**1.9**	1.9	**1.9**	1.9
Other creditors	**4.2**	3.5	**3.7**	3.3
	17.1	14.0	**16.0**	13.0

The maturity analysis of lease liabilities is included in note 36.

The movement in lease liabilities in the year is analysed in the table below:

	2023 £m	2022 £m
Group and Society		
At beginning of year	**1.9**	2.0
Modifications/remeasurements of existing lease liabilities	**0.3**	0.2
Interest charged	**0.1**	0.1
Lease payments	**(0.4)**	(0.4)
At end of year	**1.9**	1.9

25. Provisions for liabilities

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
At beginning of year	**0.5**	0.6	**0.4**	0.5
Utilised in the year	**-**	-	**-**	-
(Release) for the year	**-**	(0.1)	**-**	(0.1)
At end of year	**0.5**	0.5	**0.4**	0.4

Provisions for liabilities

Provisions for liabilities represent the Group's best estimate of customer redress payable. The calculation is based on a series of assumptions, including the number of affected accounts, appropriate level of remediation and resulting administrative costs.

26. Subscribed capital

Group and Society	Number of shares 2023	2022	Carrying value 2023 £m	2022 £m
Permanent interest bearing shares				
At beginning of year	**7,847**	7,847	**7.8**	7.8
At end of year	**7,847**	7,847	**7.8**	7.8

The Society's permanent interest bearing shares (PIBS) comprise 7,847 PIBS of £1,000 each issued at a price of 99.828% of their principal amount, with the issue premium amortised.

The PIBS are repayable at the option of the Society in whole on the 5 April 2021 or any scheduled interest payment thereafter, subject to PRA approval.

In a winding up or dissolution of the Society the claims of the holders of permanent interest bearing shares (PIBS) would rank behind all other creditors of the Society, with the exception of the claims of holders of core capital deferred shares (CCDS). The holders of PIBS are not entitled to any share in any final surplus upon winding up or dissolution of the Society.

Whilst noting that any interest payments on the PIBS are at the sole discretion of the Society, the Society announced during its capital restructuring in 2018 that any future payments on PIBS will be made only if and to the extent that they would have been permitted had the Liability Management Exercise (LME) not taken place, and in the context of determining the equivalent annual yield that would have been paid to holders of the Society's Profit Participating Deferred Shares (PPDS) had they remained in issue on their original terms. Under the terms and conditions of the PPDS (which are available for viewing on the Society's website), the Society's ability to pay PPDS distributions was constrained by reference to a percentage of profits generated in the relevant financial year, and to the extent of any positive balance on a special PPDS reserve account (to which a percentage of profits or losses of the Society was allocated each year).

Interest payments on the PIBS will therefore be limited to the lower of (i) the equivalent annual yield that would have been paid to holders of PPDS (had they remained in issue on their original terms); and (ii) the annual rate set out in the Special Conditions of Issue of the PIBS (the "Specified Rate"), being 6.15% prior to 5 April 2021 and thereafter, a rate of interest reset periodically and equal to the applicable 5-year gilt rate plus a margin of 2.8% (currently 3.0827%).

Whilst PPDS instruments no longer exist (having been exchanged during the LME), the Society continues to monitor a notional PPDS reserve. For the year ended 31 March 2023, the Society generated a reported profit after tax of £26.2m, including the impact of £2.5m Tier 2 interest payable. The net profit disregarding Tier 2 interest (after tax) would therefore have been £28.2m, and the notional PPDS reserve had a positive balance of £6.6m at 31 March 2023 that could have been distributed to PPDS holders. The equivalent annual yield that would have been paid to PPDS holders would therefore have been 3.86%, with PIBS interest payments therefore limited by the Specified Rate above.

27. Core capital deferred shares

Group and Society	Number of shares	CCDS nominal amount £m	Share premium £m	Total £m
At 31 March 2022	1,288,813	1.3	125.7	**127.0**
At 31 March 2023	**1,288,813**	**1.3**	**125.7**	**127.0**

CCDS are perpetual instruments and a form of Common Equity Tier 1 (CET 1) capital.

CCDS are the most junior-ranking capital instrument of the Society, ranking behind the claims of all depositors, payables and investing members.

Each holder of CCDS has one vote, regardless of the number of CCDS held.

The CCDS holders are entitled to receive a distribution at the discretion of the Society. The total distribution paid on each CCDS in respect of any given financial year of the Society is subject to a cap provided for in the Rules of the Society and adjusted annually for inflation. The Directors declared an interim distribution of £2.25 per CCDS in respect of the period to 30 September 2022 which was paid in February 2023. This distribution has been recognised in the Statement of Changes in Members' Interests and Equity. In May 2023 the Directors declared a final distribution for the period to 31 March 2023 of £2.25 per CCDS, in line with current distribution policy published on 24 November 2021. The final distribution is not reflected in these financial statements as distributions to the CCDS holders are recognised with reference to the date they are declared.

In the event of a winding up or dissolution of the Society, the share of surplus assets (if any) a CCDS holder would be eligible to receive is determined by the calculation of a core capital contribution proportion, limited to a maximum of the average principal amount, currently £100 per CCDS.

28. Subordinated liabilities

Group and Society	2023 £m	2022 £m
Subordinated notes due 2038 – 11.0%	**22.9**	22.9

The Society's subordinated notes rank behind all other creditors of the Society, with the exception of holders of CCDS and PIBS.

For the purposes of the Statements of Cash Flows, subordinated liabilities are classified as liabilities arising from financing activities. The following table analyses movements in subordinated liabilities.

Group and Society	2023 £m	2022 £m
At beginning of year	**22.9**	22.8
Financing cash flows		
Interest paid on subordinated liabilities	**(2.5)**	(2.5)
Non-cash flows:		
Accrued interest (settled during the year)	**1.3**	1.3
Accrued interest (carried forward)	**1.2**	1.2
Movement in unamortised issue costs	**-**	0.1
At end of year	**22.9**	22.9

29. Financial assets and liabilities at fair value through profit or loss (FVTPL)

Financial assets mandatorily measured at FVTPL
The Society's closed portfolio of equity release mortgages is held at FVTPL under IFRS 9. The movements on the portfolio during the year are analysed in the table below.

Group and Society	2023 £m	2022 £m
At beginning of year	**11.5**	12.5
Interest added	**0.8**	0.7
Redemptions	**(3.2)**	(1.9)
Changes in fair value	**(0.5)**	0.2
At end of year	**8.6**	11.5

30. Tax effects relating to each component of other comprehensive income

Group	Before tax amount 2023 £m	Taxation 2023 £m	Net of tax amount 2023 £m
Fair value through other comprehensive income investments	(0.3)	0.1	**(0.3)**
Retirement benefit obligations	(10.8)	2.3	**(8.5)**
Revaluation reserve	0.7	(0.1)	**0.6**
Other comprehensive income	(10.4)	2.3	**(8.2)**

Group	Before tax amount 2022 £m	Taxation 2022 £m	Net of tax amount 2022 £m
Fair value through other comprehensive income investments	(1.0)	0.2	(0.8)
Retirement benefit obligations	9.6	(2.7)	6.9
Revaluation reserve	-	(0.2)	(0.2)
Other comprehensive income	8.6	(2.7)	5.9

Society	Before tax amount 2023 £m	Taxation 2023 £m	Net of tax amount 2023 £m
Fair value through other comprehensive income investments	(0.3)	0.1	**(0.3)**
Retirement benefit obligations	(10.8)	2.3	**(8.5)**
Revaluation reserve	0.7	(0.1)	**0.6**
Other comprehensive income	(10.4)	2.3	**(8.2)**

Society	Before tax amount 2022 £m	Taxation 2022 £m	Net of tax amount 2022 £m
Fair value through other comprehensive income investments	(1.0)	0.2	(0.8)
Retirement benefit obligations	9.6	(2.7)	6.9
Revaluation reserve	-	(0.2)	(0.2)
Other comprehensive income	8.6	(2.7)	5.9

31. Retirement benefit obligations

Group and Society	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Net defined benefit pension scheme (asset)/obligation	**(10.9)**	(14.9)	(1.1)	2.7	4.9

Defined benefit plans

The Society operates the West Bromwich Building Society Staff Retirement Scheme (SRS), a funded pension scheme providing benefits for some of its employees based on final pensionable emoluments. The assets of the Scheme are held in a separate Trustee administered fund. In addition, the Society has an unregistered arrangement in place in respect of one former Director. The financial effect of this arrangement is included in this note.

The results of a formal actuarial valuation at 31 March 2022 carried out by the appointed actuary to the Scheme have been rolled forward to the accounting date by an independent qualified actuary and updated in accordance with IAS 19, 'Employee Benefits'. Pension obligations are valued differently for accounting and funding purposes. In accordance with IAS 19, best estimate assumptions are used to determine the retirement benefit obligation shown in the Statement of Financial Position whereas the funding valuations use more prudent assumptions and also include allowance for future administration costs, which are not included in the IAS 19 valuation.

An additional liability of £3.6m has been recorded to cover the potential cost of equalising payments to early retirees (under certain conditions) owing to potential discrepancies in Trust documentation. The assumptions used to calculate the impact on liabilities are the same as those used to calculate the IAS19 liabilities at 31 March 2023. All or part of this liability may be recovered through an ongoing resolution exercise.

The Society closed the Scheme to the future accrual of benefits with effect from 1 August 2009, at which date all previously active members became entitled to deferred pensions in the Scheme.

As part of the ongoing funding agreement for the SRS, the Trustee of the SRS has been granted a charge over the Society's Head Office, which may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS. The March 2022 valuation, and future contributions, are yet to be formally agreed. At this stage, the estimated amount of total employer deficit contributions expected to be paid to the Scheme during 2023/24, based on the current schedule of contributions, is £2.2m.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 and the Pensions Act 2021, which received royal assent in February 2021. This, together with associated regulations and documents issued by the Pensions Regulator, sets out the framework for funding defined benefit occupational pension schemes in the UK.

IAS 19 allows an employer to recognise a surplus as an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the Scheme, even if the refunds may only be available at some distant time in the future, such as after the last benefit has been paid. The Society believes that under the Scheme Rules a surplus would be recoverable by the Society.

The weighted average duration of the expected benefit payments from the Scheme is approximately 14 years.

The key assumptions used by the actuary in the updated calculation were:

Group and Society	2023	2022	2021	2020	2019
Pension increases in payment (RPI capped at 5%)	**3.1%**	3.4%	3.1%	2.5%	3.0%
Pension increases in payment (CPI capped at 2.5%)	**1.9%**	2.1%	1.9%	1.5%	1.8%
Discount rate	**4.8%**	2.8%	2.1%	2.3%	2.4%
Life expectancy of male aged 65 at year end date	**21.5**	21.6	21.8	21.8	22.4
Life expectancy of female aged 65 at year end date	**23.7**	23.8	23.9	23.7	23.4
Life expectancy of male aged 65 at year end date plus 20 years	**22.8**	22.9	23.1	23.1	23.7
Life expectancy of female aged 65 at year end date plus 20 years	**25.2**	25.2	25.3	25.2	24.9

The sensitivity of the defined benefit obligation to changes in the significant actuarial assumptions is shown in the table below (on a gross basis, prior to the application of hedging arrangements which are described in the 'Scheme assets' section of this note):

Group and Society	2023 (Decrease)/ Increase £m	2022 (Decrease)/ Increase £m
Discount rate		
Effect on defined benefit obligation of a 1% increase	**(9.9)**	(16.4)
Inflation		
Effect on defined benefit obligation of a 1% increase	**7.2**	12.0
Life expectancy		
Effect on defined benefit obligation of a 1 year increase	**3.2**	3.9

31. Retirement benefit obligations (continued)

The amounts recognised in the Statement of Financial Position are as follows:

Group and Society	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Present value of funded obligations	**83.9**	109.7	119.9	108.2	113.1
Present value of unfunded obligations	**0.5**	0.7	0.8	0.7	0.8
	84.4	110.4	120.7	108.9	113.9
Fair value of scheme assets	**(95.3)**	(125.3)	(121.8)	(106.2)	(109.0)
Net (asset) in the Statement of Financial Position	**(10.9)**	(14.9)	(1.1)	2.7	4.9

The amounts recognised in the Income Statement are as follows:

Group and Society	2023 £m	2022 £m	2021 £m
Interest cost	**3.0**	2.5	2.5
Interest receivable on plan assets	**(3.5)**	(2.6)	(2.4)
Running costs	**0.5**	0.4	0.4
Total pension fund cost	**-**	0.3	0.5

Past service cost and running costs, other than those associated with management of scheme assets, are shown in administrative expenses whilst interest cost and interest receivable on plan assets are disclosed as other operating income.

The amounts recognised in the Statement of Comprehensive Income are as follows:

Group and Society	2023 £m	2022 £m
Actuarial losses arising from:		
Financial assumptions	**(32.5)**	(9.9)
Demographic assumptions	**(0.3)**	(1.0)
Experience adjustments	**7.6**	2.0
Loss/(gain) on plan assets (excluding interest)	**36.0**	(0.7)
Total amount recognised in Other Comprehensive Income	**10.8**	(9.6)

Change in benefit obligations

Group and Society	2023 £m	2022 £m	2021 £m
Benefit obligations at beginning of year	**110.4**	120.7	108.9
Interest cost	**3.0**	2.5	2.4
Actuarial (losses)/gains	**(25.2)**	(8.9)	13.5
Benefits paid	**(3.8)**	(3.9)	(4.1)
Benefit obligations at end of year	**84.4**	110.4	120.7

Change in scheme assets

Group and Society	2023 £m	2022 £m	2021 £m
Fair value of scheme assets at beginning of year	**125.3**	121.8	106.2
Interest receivable on plan assets	**3.5**	2.6	2.4
Actuarial (losses)/gains	**(36.0)**	0.7	13.2
Contribution by employer	**6.8**	4.5	4.5
Running costs	**(0.5)**	(0.4)	(0.4)
Benefits paid	**(3.8)**	(3.9)	(4.1)
Fair value of scheme assets at end of year	**95.3**	125.3	121.8

The amount recognised outside profit and loss in the Statement of Comprehensive Income for 2022/23 is an actuarial loss of £10.8m (2021/22: gain £9.6m). The cumulative amount recognised outside profit and loss at 31 March 2023 is an actuarial loss of £59.9m.

History of experience gains and losses

Group and Society	2023	2022	2021	2020	2019
Experience gains/(losses) on scheme assets:					
Amount (£m)	**(36.0)**	0.7	13.2	(4.7)	2.6
Percentage of scheme assets	**29%**	1%	12%	(4%)	2%
Experience (gains)/losses on scheme liabilities:					
Amount (£m)	**7.6**	2.0	(0.6)	0.3	-
Percentage of scheme liabilities	**7%**	2%	(1%)	0%	0%

Scheme assets

The value of the invested assets at 31 March 2023 was £95.3m, analysed as follows:

Group and Society	2023 £m	2022 £m	2021 £m
Diversified growth fund	**1.8**	43.3	50.6
Global equities	**-**	16.2	14.5
Corporate bonds	**14.2**	-	5.9
Liability driven investment	**25.0**	31.0	32.0
Short duration credit	**14.4**	17.0	-
Insurance asset	**12.9**	16.5	18.7
Cash and other assets	**27.0**	1.3	0.1
	95.3	125.3	121.8

As part of its asset and liability matching investment strategy, designed to mitigate inflation and interest rate risk exposure, the SRS has invested in liability driven investment funds. In addition, an insurance policy has been purchased to provide income which provides a specific match against the liabilities arising from a large proportion of the SRS's current pensioners. The SRS is targeted to be 90%-100% hedged on movements in interest rates and inflation rates based on the Technical Provisions funding target. The profile of invested assets has changed reflecting a lower risk profile.

The Trustee is currently reviewing the investment strategy to consider whether the SRS should target the same level of hedging on a more prudent funding target.

Stakeholder scheme

The total cost for the year of the stakeholder plan to the Group and Society was £1.3m (2021/22: £1.2m).

For the period through to 31 July 2009 staff could contribute between 2% and 9% with the Society contributing on a sliding scale between 2% and 7%. From 1 August 2009 to 31 March 2018 staff were able to contribute between 2% and 10% with the Society providing matched funding. From 1 April 2018 staff within the stakeholder scheme were required to contribute between 3% and 10%, with the Society providing matched funding plus 0.6%. From 1 April 2019 staff within the stakeholder scheme are required to contribute between 4% and 10%, with the Society providing matched funding plus 0.6%.

32. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

The Group is a retailer of financial instruments, mainly in the form of mortgages and savings. The Group uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding, and to manage the risks arising from its operations. As a result of these activities, the Group is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk (principally interest rate risk). These risks are described in notes 34 to 36.

The use of derivative financial instruments for risk management purposes is described in note 12.

Classification of financial assets and financial liabilities

The following tables show the classification of the Group's and Society's financial assets and liabilities:

At 31 March 2023

Group	**Amortised cost £m**	**Fair value through other comprehensive income £m**	**Fair value through profit or loss £m**	**Total £m**
Assets				
Cash and balances with the Bank of England	598.2	-	-	**598.2**
Loans and advances to credit institutions	72.8	-	-	**72.8**
Investment securities	-	315.2	0.4	**315.6**
Derivative financial instruments	-	-	100.5	**100.5**
Loans and advances to customers	4,361.7	-	8.6	**4,370.3**
Total financial assets	**5,032.7**	**315.2**	**109.5**	**5,457.4**
Non-financial assets				**231.9**
Total assets				**5,689.3**

	Amortised cost £m	**Fair value through profit or loss £m**	**Total £m**
Liabilities			
Shares	4,306.3	-	**4,306.3**
Amounts due to credit institutions	826.2	-	**826.2**
Amounts due to other customers	63.1	-	**63.1**
Derivative financial instruments	-	6.7	**6.7**
Debt securities in issue	-	-	**-**
Subordinated liabilities	22.9	-	**22.9**
Total financial liabilities	**5,218.5**	**6.7**	**5,225.2**
Non-financial liabilities			**33.6**
Total liabilities			**5,258.8**

At 31 March 2022

Group	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	652.0	-	-	652.0
Loans and advances to credit institutions	73.2	-	-	73.2
Investment securities	-	286.4	0.5	286.9
Derivative financial instruments	-	-	52.4	52.4
Loans and advances to customers	4,766.8	-	11.5	4,778.3
Total financial assets	5,492.0	286.4	64.4	5,842.8
Non-financial assets				224.5
Total assets				6,067.3

	Amortised cost £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,183.6	-	4,183.6
Amounts due to credit institutions	1,116.7	-	1,116.7
Amounts due to other customers	114.6	-	114.6
Derivative financial instruments	-	11.5	11.5
Debt securities in issue	171.2	-	171.2
Subordinated liabilities	22.9	-	22.9
Total financial liabilities	5,609.0	11.5	5,620.5
Non-financial liabilities			29.5
Total liabilities			5,650.0

32. Financial instruments (continued)

At 31 March 2023

Society	**Amortised cost £m**	**Fair value through other comprehensive income £m**	**Fair value through profit or loss £m**	**Total £m**
Assets				
Cash and balances with the Bank of England	598.2	-	-	**598.2**
Loans and advances to credit institutions	40.5	-	-	**40.5**
Investment securities	370.6	315.2	0.4	**686.2**
Derivative financial instruments	-	-	100.5	**100.5**
Loans and advances to customers	3,215.7	-	8.6	**3,224.3**
Investments	896.3	-	-	**896.3**
Total financial assets	**5,121.3**	**315.2**	**109.5**	**5,546.0**
Non-financial assets				**71.2**
Total assets				**5,617.2**

	Amortised cost £m	**Fair value through profit or loss £m**	**Total £m**
Liabilities			
Shares	4,306.3	-	**4,306.3**
Amounts due to credit institutions	826.6	-	**826.6**
Amounts due to other customers	56.3	-	**56.3**
Derivative financial instruments	-	6.6	**6.6**
Subordinated liabilities	22.9	-	**22.9**
Total financial liabilities	**5,212.1**	**6.6**	**5,218.7**
Non-financial liabilities			**21.6**
Total liabilities			**5,240.3**

At 31 March 2022

Society	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	652.0	-	-	652.0
Loans and advances to credit institutions	27.1	-	-	27.1
Investment securities	453.7	286.4	0.5	740.6
Derivative financial instruments	-	-	52.2	52.2
Loans and advances to customers	3,418.0	-	11.5	3,429.5
Investments	1,027.3	-	-	1,027.3
Total financial assets	5,578.1	286.4	64.2	5,928.7
Non-financial assets				68.4
Total assets				5,997.1

	Amortised cost £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,183.6	-	4,183.6
Amounts due to credit institutions	1,116.2	-	1,116.2
Amounts due to other customers	262.3	-	262.3
Derivative financial instruments	-	11.4	11.4
Subordinated liabilities	22.9	-	22.9
Total financial liabilities	5,585.0	11.4	5,596.4
Non-financial liabilities			19.4
Total liabilities			5,615.8

32. Financial instruments (continued)

Fair values of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group determines fair values by the following three tier valuation hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques where all inputs are taken from observable market data, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques where significant inputs are not based on observable market data.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, equity index prices and expected price volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Observable prices are those that have been seen either from counterparties or from market pricing sources including Bloomberg. The use of these depends upon the liquidity of the relevant market.

The carrying value of cash and balances with the Bank of England are assumed to approximate their fair value.

Financial assets and financial liabilities held at amortised cost

The tables below show the fair values of the Group's and Society's financial assets and liabilities held at amortised cost in the Statements of Financial Position, analysed according to the fair value hierarchy described above.

At 31 March 2023

Group	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	**72.8**	-	72.8	-	**72.8**
Loans and advances to customers	**4,361.7**	-	-	4,465.2	**4,465.2**
	4,434.5	**-**	**72.8**	**4,465.2**	**4,538.0**
Financial liabilities					
Shares	**4,306.3**	-	-	4,308.9	**4,308.9**
Amounts due to credit institutions	**826.2**	-	826.2	-	**826.2**
Amounts due to other customers	**63.1**	-	56.8	6.0	**62.8**
Debt securities in issue	**-**	-	-	-	**-**
Subordinated liabilities	**22.9**	-	22.9	-	**22.9**
	5,218.5	**-**	**905.9**	**4,314.9**	**5,220.8**

At 31 March 2022

Group	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	73.2	-	73.2	-	73.2
Loans and advances to customers	4,766.8	-	-	4,907.2	4,907.2
	4,840.0	-	73.2	4,907.2	4,980.4
Financial liabilities					
Shares	4,183.6	-	-	4,145.5	4,145.5
Amounts due to credit institutions	1,116.7	-	1,116.7	-	1,116.7
Amounts due to other customers	114.6	-	107.5	7.2	114.7
Debt securities in issue	171.2	171.4	0.2	-	171.6
Subordinated liabilities	22.9	-	22.9	-	22.9
	5,609.0	171.4	1,247.3	4,152.7	5,571.4

At 31 March 2023

Society	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	**40.5**	-	40.5	-	**40.5**
Investment securities	**370.6**	-	370.6	-	**370.6**
Loans and advances to customers	**3,215.7**	-	-	3,535.8	**3,535.8**
Investments	**896.3**	-	-	896.3	**896.3**
	4,523.1	**-**	**411.1**	**4,432.1**	**4,843.2**
Financial liabilities					
Shares	**4,306.3**	-	-	4,308.9	**4,308.9**
Amounts due to credit institutions	**826.6**	-	826.6	-	**826.6**
Amounts due to other customers	**56.3**	-	56.3	(0.1)	**56.2**
Subordinated liabilities	**22.9**	-	22.9	-	**22.9**
	5,212.1	**-**	**905.8**	**4,308.8**	**5,214.6**

At 31 March 2022

Society	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	27.1	-	27.1	-	27.1
Investment securities	453.7	-	453.7	-	453.7
Loans and advances to customers	3,418.0	-	-	3,613.3	3,613.3
Investments	1,027.3	-	-	1,027.3	1,027.3
	4,926.1	-	480.8	4,640.6	5,121.4
Financial liabilities					
Shares	4,183.6	-	-	4,145.5	4,145.5
Amounts due to credit institutions	1,116.2	-	1,116.2	-	1,116.2
Amounts due to other customers	262.3	-	107.6	157.9	265.5
Subordinated liabilities	22.9	-	22.9	-	22.9
	5,585.0	-	1,246.7	4,303.4	5,550.1

32. Financial instruments (continued)

a) Loans and advances to customers
The fair value of loans and advances to customers has been determined taking into account factors such as impairment and interest rates. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2023.

b) Shares and borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2023.

c) Debt securities in issue
The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Financial assets and financial liabilities held at fair value

The tables below show the fair values of the Group's and Society's financial assets and liabilities held at fair value in the Statements of Financial Position, analysed according to the fair value hierarchy described previously.

Group	Level 1 2023 £m	Level 2 2023 £m	Level 3 2023 £m	Total 2023 £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	315.2	-	-	**315.2**
At fair value through profit or loss	0.4	-	-	**0.4**
Derivative financial instruments	-	100.5	-	**100.5**
Loans and advances to customers	-	-	8.6	**8.6**
	315.6	**100.5**	**8.6**	**424.7**
Financial liabilities				
Derivative financial instruments	-	6.7	-	**6.7**
	-	**6.7**	**-**	**6.7**

Group	Level 1 2022 £m	Level 2 2022 £m	Level 3 2022 £m	Total 2022 £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	286.4	-	-	286.4
At fair value through profit or loss	0.5	-	-	0.5
Derivative financial instruments	-	52.4	-	52.4
Loans and advances to customers	-	-	11.5	11.5
	286.9	52.4	11.5	350.8
Financial liabilities				
Derivative financial instruments	-	11.5	-	11.5
	-	11.5	-	11.5

Society	Level 1 2023 £m	Level 2 2023 £m	Level 3 2023 £m	Total 2023 £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	315.2	-	-	**315.2**
At fair value through profit or loss	0.4	-	-	**0.4**
Derivative financial instruments	-	100.5	-	**100.5**
Loans and advances to customers	-	-	8.6	**8.6**
	315.6	**100.5**	**8.6**	**424.7**
Financial liabilities				
Derivative financial instruments	-	6.6	-	**6.6**
	-	**6.6**	**-**	**6.6**

Society	Level 1 2022 £m	Level 2 2022 £m	Level 3 2022 £m	Total 2022 £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	286.4	-	-	286.4
At fair value through profit or loss	0.5	-	-	0.5
Derivative financial instruments	-	52.2	-	52.2
Loans and advances to customers	-	-	11.5	11.5
	286.9	52.2	11.5	350.6
Financial liabilities				
Derivative financial instruments	-	11.4	-	11.4
	-	11.4	-	11.4

The Society's equity release mortgage portfolio is measured at fair value using a discounted cash flow model for which key inputs are not based on observable market data. The calculation therefore meets the definition of a level 3 valuation technique. Details of the key model assumptions and the fair value impact of changes in those assumptions are given in the accounting policies.

The table below analyses movements in the level 3 portfolio during the period.

Group and Society	2023 £m	2022 £m
Equity release portfolio		
At 1 April	**11.5**	12.5
Items recognised in the Income Statement		
Interest receivable and similar income	**0.8**	0.7
Fair value (losses)/gains on financial instruments	**(0.5)**	0.2
Redemptions	**(3.2)**	(1.9)
At 31 March	**8.6**	11.5

There have been no transfers of financial assets or liabilities between levels of the valuation hierarchy in the period.

33. Credit risk

(a) Credit risk definition and management

Credit risk can be described as the risk of customers or counterparties being unable to meet their financial obligations to the Group as they become due.

The Group is exposed to this risk through its lending to:

- individuals (consumers - residential mortgages, including buy to let);
- businesses (non-consumers - previous commercial lending and elements of buy to let exposure); and
- wholesale counterparties (including other financial institutions). Specifically within the treasury portfolio, where credit risk arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes.

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Group's exposure to credit risk. Adverse changes in the credit quality of counterparties, collateral values or deterioration in the wider economy, including rising unemployment, worsening household finances and tightening in the UK property market, resulting in declining property values, could affect the recoverability and value of the Group's assets and influence its financial performance. An economic downturn and future falls in property values (either residential or commercial) could affect the level of impairment losses recognised.

The controlled management of credit risk is critical to the Group's overall strategy. The Group has therefore embedded a comprehensive and robust credit risk management framework with clear lines of accountability and oversight as part of its overall governance framework. The Group has effective policies and procedures to identify, measure, monitor, manage and report credit risk within the Group's risk appetite.

The Risk Committee is responsible for the oversight of credit risk appetite that has been established by the Board and for approving lending policy and setting limits on credit exposures, which are monitored and reviewed on a monthly basis. The minutes of this committee are presented to the Board. This committee is supported by four Executive sub-committees: the Executive Risk Committee, the Residential Credit Committee, the Commercial Loan Risk Committee and the Model Risk Committee. The role of each within the credit risk framework is outlined below:

- The Executive Risk Committee (ERC) is responsible for providing the Risk Committee with an enterprise wide view of the risk profile of the Society including current and potential risks. The ERC is also accountable for driving the detailed implementation of the Society's Risk Management Framework. In the context of credit risk, the ERC proposes to Risk Committee any recommendations for Board approval regarding the Residential Lending Statement and Credit Risk Appetite Statement. The ERC approves material changes to the Lending and Security Policies, and reviews these policies annually. A summary of the minutes of this committee are presented to the Risk Committee.
- The Residential Credit Committee is responsible for the monitoring of the Group's residential credit exposures and approving changes to the credit scoring systems that are utilised. In addition, the Committee reviews the type and quality of approved residential mortgage business and appraises actual arrears and repossession levels against trends and industry averages. A summary of the minutes of this committee are presented to the ERC.
- The Commercial Loan Risk Committee reviews individual commercial loans at levels mandated by the Board. This may involve reviewing individual cases on a quarterly, half yearly or annual basis.
- The Model Risk Committee supports the Society's development and maintenance of models, including those related to the management of credit risk. The Committee oversees the initiation, development, approval, implementation, performance, monitoring and validation of the Society's models in the context of compliance with both Regulation and the Society's own governance requirements. A summary of the minutes of this committee are presented to the ERC.

The Group adopts a responsible approach to lending ensuring that loans are, and are expected to remain, affordable and the Responsible Lending Policy is approved annually by the Board.

The maximum credit risk exposure is the carrying value as shown in the tables on pages 138 to 141.

(b) Residential assets held at amortised cost

Concentration by loan type	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Prime owner occupied	3,122.1	3,234.4	3,052.6	3,149.9
Buy to let	1,141.3	1,300.5	236.9	284.3
Other	35.2	42.2	0.5	0.7
Gross balances	4,298.6	4,577.1	3,290.0	3,434.9
Expected credit loss provisions	(10.2)	(7.7)	(2.3)	(1.5)
Fair value hedge adjustments	(81.6)	(51.2)	(72.0)	(46.1)
	4,206.8	4,518.2	3,215.7	3,387.3

(i) Credit quality

The Group assesses credit risk on owner occupied and buy to let residential mortgages using behavioural scorecard and other analysis to determine probabilities of default across a number of rating grades. The IFRS 9 impairment models make use of this data, incorporating forecasts of future economic conditions and account-specific factors to produce forward-looking probabilities of default by account and allocating loans to one of three stages (as explained in note 1).

The table below analyses gross exposures to residential assets by 12-month probability of default and IFRS 9 stage at the reporting date, with the exception of the closed second charge lending portfolio for which probability of possession is used as a credit risk measure, rather than probability of default.

At 31 March 2023

	Group				Society			
Probability of default range (%)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
0.00 to < 0.25	2,997.9	108.6	-	3,106.5	2,576.6	101.5	-	2,678.1
0.25 to < 0.50	476.4	64.7	-	541.1	312.3	37.2	-	349.5
0.50 to < 0.75	41.4	10.1	-	51.5	11.5	2.0	-	13.5
0.75 to < 1.00	85.6	13.3	-	98.9	5.9	5.9	-	11.8
1.00 to < 5.00	228.3	130.9	-	359.2	69.6	103.0	-	172.6
5.00 to < 10.00	5.8	2.6	-	8.4	2.9	2.3	-	5.2
10.00 to < 100.00	31.7	31.3	-	63.0	11.5	21.7	-	33.2
100.00 (default)	-	-	63.8	63.8	-	-	25.9	25.9
Second charge	3.7	1.4	1.0	6.1	0.1	0.1	-	0.2
	3,870.8	**362.9**	**64.8**	**4,298.5**	**2,990.4**	**273.7**	**25.9**	**3,290.0**

At 31 March 2022

	Group				Society			
Probability of default range (%)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
0.00 to < 0.25	3,174.4	205.7	-	3,380.1	2,684.0	168.7	-	2,852.7
0.25 to < 0.50	474.3	84.8	0.3	559.4	304.0	38.1	-	342.1
0.50 to < 0.75	39.9	24.2	-	64.1	10.3	5.2	-	15.5
0.75 to < 1.00	65.7	14.1	-	79.8	6.5	7.0	-	13.5
1.00 to < 5.00	176.3	152.8	1.0	330.1	57.5	97.8	0.5	155.8
5.00 to < 10.00	4.9	0.7	-	5.6	2.8	0.4	-	3.2
10.00 to < 100.00	64.6	25.6	0.5	90.7	11.1	15.6	0.2	26.9
100.00 (default)	-	-	59.7	59.7	-	-	24.9	24.9
Second charge	5.0	1.5	1.1	7.6	0.2	0.1	-	0.3
	4,005.1	509.4	62.6	4,577.1	3,076.4	332.9	25.6	3,434.9

The table below provides further information on the Group's residential loans and advances to customers by payment due status at 31 March.

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Not past due	4,248.3	4,548.4	3,266.7	3,423.1
Past due 1 to 3 months	23.9	13.7	11.6	5.4
Past due 3 to 6 months	14.2	5.6	6.2	2.2
Past due 6 to 12 months	7.0	3.2	4.1	2.0
Past due over 12 months	2.2	3.1	1.1	0.8
Possessions	3.0	3.1	0.3	1.4
	4,298.6	4,577.1	3,290.0	3,434.9

33. Credit risk (continued)

(ii) Expected credit losses

The table below illustrates the IFRS 9 staging distribution of residential loans and advances to customers held at amortised cost, loan commitments and related expected credit loss provisions at the year end. Stage 2 loans have been further analysed to show those which are more than 30 days past due, the IFRS 9 backstop for identifying a significant increase in credit risk (SICR), and those which meet other SICR criteria as detailed in note 1 to the accounts.

At 31 March 2023

	Group			Society		
	Gross exposure £m	**Expected credit loss provision £m**	**Provision coverage %**	**Gross exposure £m**	**Expected credit loss provision £m**	**Provision coverage %**
Residential loans at amortised cost						
Stage 1	**3,870.8**	**0.9**	**0.02%**	**2,990.4**	**0.2**	**0.01%**
Provision overlays	**-**	**0.2**	**-**	**-**	**-**	**-**
Stage 2						
> 30 days past due	**8.6**	**0.1**	**1.16%**	**4.9**	**-**	**0.00%**
Other SICR indicators	**354.4**	**1.2**	**0.34%**	**268.8**	**0.6**	**0.22%**
Provision overlays	**-**	**5.4**	**-**	**-**	**1.0**	**-**
Stage 3	**64.7**	**2.4**	**3.72%**	**25.9**	**0.5**	**1.93%**
	4,298.5	**10.2**	**0.24%**	**3,290.0**	**2.3**	**0.07%**

Loan commitments						
Stage 1	**243.1**	**-**	**0.00%**	**218.0**	**-**	**0.00%**

At 31 March 2022

	Group			Society		
	Gross exposure £m	Expected credit loss provision £m	Provision coverage %	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans at amortised cost						
Stage 1	4,005.1	1.3	0.03%	3,076.4	0.2	0.01%
Stage 2						
> 30 days past due	7.3	0.1	1.37%	3.0	-	0.00%
Other SICR indicators	502.1	1.7	0.34%	329.9	0.4	0.12%
Provision overlays	-	2.3	-	-	0.2	-
Stage 3	62.6	2.3	3.67%	25.6	0.7	2.73%
	4,577.1	7.7	0.17%	3,434.9	1.5	0.04%

Loan commitments						
Stage 1	169.4	-	0.00%	154.9	-	0.00%

For the purposes of the disclosure above, gross exposures and expected credit loss provisions are rounded to the nearest £0.1m whereas the provision coverage percentages are based on the underlying data prior to rounding.

The tables below analyse the movement in gross residential exposures and the related expected credit loss allowances for the year ended 31 March 2023:

	Group				Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross exposure								
At 1 April 2022	4,005.1	509.4	62.6	**4,577.1**	3,076.4	332.9	25.6	**3,434.9**
Transfers due to increased credit risk:								
From stage 1 to stage 2	(154.9)	154.9	-	**-**	(120.1)	120.1	-	**-**
From stage 1 to stage 3	(15.1)	-	15.1	**-**	(4.4)	-	4.4	**-**
From stage 2 to stage 3	-	(15.8)	15.8	**-**	-	(8.1)	8.1	**-**
Transfers due to decreased credit risk:								
From stage 2 to stage 1	203.5	(203.5)	-	**-**	114.1	(114.1)	-	**-**
From stage 3 to stage 1	2.9	-	(2.9)	**-**	0.9	-	(0.9)	**-**
From stage 3 to stage 2	-	5.8	(5.8)	**-**	-	3.2	(3.2)	**-**
Mortgage advances	690.7	-	-	**690.7**	640.1	-	-	**640.1**
Net redemptions and repayments	(868.9)	(82.2)	(19.4)	**(970.5)**	(712.7)	(60.2)	(8.0)	**(780.9)**
Amounts written off	(0.1)	-	(0.4)	**(0.5)**	-	-	(0.1)	**(0.1)**
Other movements	7.6	(5.7)	(0.2)	**1.7**	(3.9)	(0.1)	-	**(4.0)**
At 31 March 2023	**3,870.8**	**362.9**	**64.8**	**4,298.5**	**2,990.4**	**273.7**	**25.9**	**3,290.0**

	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross exposure								
At 1 April 2021	3,863.1	619.2	59.0	4,541.3	3,045.5	279.6	22.3	3,347.4
Transfers due to increased credit risk:								
From stage 1 to stage 2	(204.6)	204.6	-	-	(172.4)	172.4	-	-
From stage 1 to stage 3	(16.6)	-	16.6	-	(8.7)	-	8.7	-
From stage 2 to stage 3	-	(7.5)	7.5	-	-	(3.3)	3.3	-
Transfers due to decreased credit risk:								
From stage 2 to stage 1	241.9	(241.9)	-	-	76.5	(76.5)	-	-
From stage 3 to stage 1	1.0	-	(1.0)	-	0.3	-	(0.3)	-
From stage 3 to stage 2	-	5.3	(5.3)	-	-	1.5	(1.5)	-
Mortgage advances	755.5	-	-	755.5	682.6	-	-	682.6
Net redemptions and repayments	(630.0)	(70.3)	(13.6)	(713.9)	(547.4)	(40.8)	(6.7)	(594.9)
Amounts written off	-	-	(0.5)	(0.5)	-	-	(0.2)	(0.2)
Other movements	(5.2)	-	(0.1)	(5.3)	-	-	-	-
At 31 March 2022	4,005.1	509.4	62.6	4,577.1	3,076.4	332.9	25.6	3,434.9

33. Credit risk (continued)

	Group				Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Expected credit loss provision								
At 1 April 2022	1.3	4.1	2.3	**7.7**	0.2	0.6	0.7	**1.5**
Transfers due to increased credit risk:								
From stage 1 to stage 2	-	0.6	-	**0.6**	-	0.3	-	**0.3**
From stage 1 to stage 3	(0.2)	-	0.6	**0.4**	-	-	0.1	**0.1**
From stage 2 to stage 3	-	(0.2)	0.3	**0.1**	-	(0.1)	0.1	**-**
Transfers due to decreased credit risk:								
From stage 2 to stage 1	0.2	(0.7)	-	**(0.5)**	-	(0.1)	-	**(0.1)**
From stage 3 to stage 2	-	-	(0.1)	**(0.1)**	-	-	-	**-**
Remeasurement of expected credit losses with no stage transfer	0.3	(0.1)	-	**0.2**	0.2	-	(0.1)	**0.1**
Redemptions	(0.5)	(0.1)	(0.4)	**(1.0)**	(0.1)	-	(0.1)	**(0.2)**
Amounts written off	(0.1)	-	(0.4)	**(0.5)**	-	-	(0.1)	**(0.1)**
Other movements	(0.1)	-	0.1	**-**	(0.1)	0.1	(0.1)	**(0.1)**
Movement in provision overlays	0.2	3.1	-	**3.3**	-	0.8	-	**0.8**
At 31 March 2023	**1.1**	**6.7**	**2.4**	**10.2**	**0.2**	**1.6**	**0.5**	**2.3**

	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Expected credit loss provision								
At 1 April 2021	1.8	7.4	2.6	11.8	0.4	1.4	0.7	2.5
Transfers due to increased credit risk:								
From stage 1 to stage 2	-	0.4	-	0.4	-	0.2	-	0.2
From stage 1 to stage 3	(0.2)	-	0.5	0.3	(0.1)	-	0.2	0.1
From stage 2 to stage 3	-	(0.1)	0.2	0.1	-	(0.1)	0.1	-
Transfers due to decreased credit risk:								
From stage 2 to stage 1	0.2	(2.5)	-	(2.3)	-	(0.3)	-	(0.3)
From stage 3 to stage 2	-	-	(0.1)	(0.1)	-	-	-	-
Remeasurement of expected credit losses with no stage transfer	(0.1)	(1.5)	(0.1)	(1.7)	(0.1)	(0.4)	0.1	(0.4)
Redemptions	(0.4)	(0.2)	(0.3)	(0.9)	(0.1)	(0.1)	(0.1)	(0.3)
Amounts written off	-	-	(0.5)	(0.5)	-	-	(0.2)	(0.2)
Other movements	-	-	-	-	0.1	-	(0.1)	-
Movement in provision overlays	-	0.6	-	0.6	-	(0.1)	-	(0.1)
At 31 March 2022	1.3	4.1	2.3	7.7	0.2	0.6	0.7	1.5

(iii) Geographical analysis

The table below shows the geographic spread of the residential loan portfolio at the year end date:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
East Anglia	**104.0**	113.2	**78.2**	81.3
East Midlands	**449.9**	480.7	**361.6**	383.3
Greater London	**447.1**	490.7	**235.0**	256.5
Northern Ireland	**2.9**	3.2	**0.1**	0.3
North	**210.3**	213.0	**171.3**	169.6
North West	**600.1**	608.2	**478.4**	469.7
Scotland	**58.3**	72.9	**14.7**	18.6
South East	**759.0**	801.3	**563.9**	582.2
South West	**330.1**	364.3	**264.9**	286.8
Wales	**215.9**	229.7	**172.3**	179.7
West Midlands	**635.7**	701.3	**542.7**	597.5
Yorkshire	**485.3**	498.6	**406.9**	409.4
	4,298.6	4,577.1	**3,290.0**	3,434.9

(iv) Collateral

The table below shows analysis of the indexed loan to value distribution of the residential loan portfolio at the year end date:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
>95%	**37.5**	9.3	**37.1**	7.3
91% - 95%	**119.7**	39.8	**119.3**	39.4
86% - 90%	**123.1**	61.8	**122.9**	61.2
76% - 85%	**335.1**	461.2	**250.6**	377.0
51% - 75%	**2,008.1**	2,349.8	**1,581.6**	1,794.3
<51%	**1,675.1**	1,655.2	**1,178.5**	1,155.7
	4,298.6	4,577.1	**3,290.0**	3,434.9

The Group's average indexed loan to value at the year end date is 48.4% (2021/22: 46.9%), calculated as a simple average across all residential loans.

The following table indicates collateral held against residential loans and advances to customers by IFRS 9 stage:

Fair value of collateral held	**Group 2023 £m**	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Stage 1	**8,936.7**	8,914.9	**6,878.0**	6,834.8
Stage 2	**830.7**	1,140.8	**600.9**	727.1
Stage 3	**174.8**	162.7	**75.7**	72.0
	9,942.2	10,218.4	**7,554.6**	7,633.9

The collateral held consists of properties included within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

33. Credit risk (continued)

(v) Forbearance
A range of forbearance strategies are employed in order to work with borrowers to control arrears and, wherever possible, avoid repossession. These are set out in the relevant Group policies. The agreed strategy will reflect the customer's individual circumstances, appropriately taking any vulnerabilities into consideration, and will be used in line with industry guidance. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans.

The table below analyses residential mortgage balances with renegotiated terms at the year end date:

Group	Arrangements 2023 £m	Concessions 2023 £m	Capitalisation 2023 £m	Term extensions 2023 £m	Total 2023 £m
Not past due	9.2	0.1	1.3	0.8	**11.4**
Past due 1 to 3 months	2.0	0.1	0.1	-	**2.2**
Past due 3 to 6 months	2.0	-	-	-	**2.0**
Past due 6 to 12 months	1.1	-	-	-	**1.1**
Past due over 12 months	0.9	-	-	-	**0.9**
	15.2	**0.2**	**1.4**	**0.8**	**17.6**

Group	Arrangements 2022 £m	Concessions 2022 £m	Capitalisation 2022 £m	Term extensions 2022 £m	Total 2022 £m
Not past due	9.6	0.1	1.5	0.8	12.0
Past due 1 to 3 months	1.7	-	-	-	1.7
Past due 3 to 6 months	1.3	-	-	-	1.3
Past due 6 to 12 months	1.0	0.1	0.1	-	1.2
Past due over 12 months	1.2	0.2	-	-	1.4
	14.8	0.4	1.6	0.8	17.6

(c) Commercial assets
Commercial assets comprise a closed portfolio of non-core commercial loans which is analysed in the table below.

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Concentration by loan type				
Loans secured on commercial property	**229.9**	320.3	**-**	16.2
Loans secured on residential property	**0.7**	15.0	**-**	14.2
Gross balances	**230.6**	335.3	**-**	30.4
Fair value adjustments	**3.5**	13.2	**-**	0.4
Gross exposures	**234.1**	348.5	**-**	30.8
Impairment provisions	**(79.1)**	(99.9)	**-**	-
	155.0	248.6	**-**	30.8

Of the Group fair value adjustments, £3.5m (2021/22: £13.0m) relate to loans secured on commercial property and nil (2021/22 £0.2m) relate to loans secured on residential property. Of the Society fair value adjustments, nil (2021/22: £0.2m) relates to loans secured on commercial property and nil (2021/22: £0.2m) relates to loans secured on residential property. Loans secured on commercial property sitting within the Society balance sheet fully redeemed during the year. The remaining portfolio is held within West Bromwich Commercial Limited.

(i) Credit quality
The internal credit risk grading approach for the closed commercial loan book does not use scorecards or probability of default calculations. Instead loans are individually assessed against a series of prescriptive and judgmental criteria, by subject matter experts following a clearly defined methodology, to arrive at a risk grade. The distribution of the portfolio by grade and IFRS 9 stage at 31 March is set out in the table below.

At 31 March 2023

	Group Stage 1 £m	Group Stage 2 £m	Group Stage 3 £m	Group Total £m	Society Stage 1 £m
Strong	3.9	-	-	**3.9**	-
Good	14.2	-	-	**14.2**	-
Satisfactory	-	4.0	-	**4.0**	-
Weak	-	8.9	-	**8.9**	-
Default:					
In Law of Property Act Receivership	-	-	203.1	**203.1**	-
	18.1	**12.9**	**203.1**	**234.1**	**-**

At 31 March 2022

	Group Stage 1 £m	Group Stage 2 £m	Group Stage 3 £m	Group Total £m	Society Stage 1 £m
Strong	37.4	-	-	37.4	30.8
Good	10.5	-	-	10.5	-
Satisfactory	-	10.5	-	10.5	-
Weak	-	39.8	-	39.8	-
Default:					
In Law of Property Act Receivership	-	-	250.3	250.3	-
	47.9	50.3	250.3	348.5	30.8

The table below provides further information on the Group's commercial assets by payment due status at 31 March:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Not past due	**132.4**	256.3	**-**	30.8
Past due up to 3 months	**32.4**	-	**-**	-
Past due 3 to 6 months	**-**	2.1	**-**	-
Past due 6 to 12 months	**2.0**	13.5	**-**	-
Past due over 12 months	**67.3**	76.6	**-**	-
	234.1	348.5	**-**	30.8

33. Credit risk (continued)

(ii) Expected credit losses

The table below illustrates the IFRS 9 staging distribution of commercial loans and advances to customers and related expected credit loss provisions at the year end. Stage 2 loans have been further analysed to show those which are more than 30 days past due, the IFRS 9 backstop for identifying a significant increase in credit risk (SICR), and those which meet other SICR criteria as detailed in note 1 to the accounts.

At 31 March 2023

	Group			Society		
	Gross exposure £m	**Expected credit loss provision £m**	**Provision coverage %**	**Gross exposure £m**	**Expected credit loss provision £m**	**Provision coverage %**
Commercial loans						
Stage 1	**18.1**	**-**	**0.00%**	**-**	**-**	**-**
Stage 2						
> 30 days past due	**-**	**-**	**0.00%**	**-**	**-**	**-**
Other SICR indicators	**12.9**	**0.2**	**1.55%**	**-**	**-**	**-**
Stage 3	**203.1**	**77.4**	**38.10%**	**-**	**-**	**-**
Provision overlays	**-**	**1.6**	**-**	**-**	**-**	**-**
	234.1	**79.2**	**33.83%**	**-**	**-**	**-**

At 31 March 2022

	Group			Society		
	Gross exposure £m	Expected credit loss provision £m	Provision coverage %	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans						
Stage 1	47.9	-	0.00%	30.8	-	0.00%
Stage 2						
> 30 days past due	-	-	-	-	-	-
Other SICR indicators	50.3	8.8	17.50%	-	-	-
Stage 3	250.3	91.1	36.40%	-	-	-
Provision overlays	-	-	-	-	-	-
	348.5	99.9	28.67%	30.8	-	0.00%

For the purposes of the disclosure above, gross exposures and expected credit loss provisions are rounded to the nearest £0.1m whereas the provision coverage percentages are based on the underlying data prior to rounding.

The tables below analyse the movement in gross commercial exposures and the related expected credit loss allowances at 31 March:

	Group				Society
Gross exposure	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**
At 1 April 2022	47.9	50.3	250.3	**348.5**	30.8
Transfers due to increased credit risk:					
From stage 1 to stage 2	-	-	-	**-**	-
From stage 1 to stage 3	(1.5)	-	1.5	**-**	-
From stage 2 to stage 3	-	(26.4)	26.4	**-**	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	4.4	(4.4)	-	**-**	-
From stage 3 to stage 2	-	0.1	(0.1)	**-**	-
Net redemptions, repayments and fair value adjustments for hedged risk	(32.6)	(6.7)	(33.7)	**(73.0)**	(30.8)
Amounts written off	-	-	(41.3)	**(41.3)**	-
Other movements	(0.1)	-	-	**(0.1)**	-
At 31 March 2023	18.1	12.9	203.1	**234.1**	-

	Group				Society
Gross exposure	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m
At 1 April 2021	57.6	82.8	257.9	398.3	32.3
Transfers due to increased credit risk:					
From stage 1 to stage 2	(1.3)	1.3	-	-	-
From stage 1 to stage 3	(0.2)	-	0.2	-	-
From stage 2 to stage 3	-	(17.9)	17.9	-	-
Transfers due to decreased credit risk:					
From stage 3 to stage 2	-	2.9	(2.9)	-	-
Net redemptions, repayments and fair value adjustments for hedged risk	(8.2)	(18.8)	(18.0)	(45.0)	(1.5)
Amounts written off	-	-	(4.8)	(4.8)	-
At 31 March 2022	47.9	50.3	250.3	348.5	30.8

33. Credit risk (continued)

	Group				Society
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**
Expected credit loss allowance					
At 1 April 2022	-	8.8	91.1	**99.9**	-
Transfers due to increased credit risk:					
From stage 2 to stage 3	-	(8.5)	9.4	**0.9**	-
Remeasurement of expected credit losses with no stage transfer	-	(0.1)	18.3	**18.2**	-
Redemptions	-	-	(0.2)	**(0.2)**	-
Amounts written off	-	-	(41.3)	**(41.3)**	-
Other movements	-	-	0.1	**0.1**	-
Movement in provision overlays	-	-	1.6	**1.6**	-
At 31 March 2023	-	0.2	79.0	**79.2**	-

	Group				Society
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m
Expected credit loss allowance					
At 1 April 2021	-	8.4	83.5	91.9	-
Transfers due to increased credit risk:					
From stage 2 to stage 3	-	(2.7)	1.5	(1.2)	-
Remeasurement of expected credit losses with no stage transfer	-	3.6	13.7	17.3	-
Redemptions	-	(0.5)	-	(0.5)	-
Amounts written off	-	-	(4.8)	(4.8)	-
Movement in provision overlays	-	-	(2.8)	(2.8)	-
At 31 March 2022	-	8.8	91.1	99.9	-

(iii) Industry analysis of commercial loans

The analysis of commercial loans by industry type is as follows:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
Healthcare	**47.3**	55.5	**-**	-
Leisure	**40.9**	47.0	**-**	-
Industrial and warehouse	**3.9**	8.2	**-**	2.8
Office	**-**	4.3	**-**	4.3
Retail	**140.3**	218.4	**-**	9.3
Residential	**0.7**	15.1	**-**	14.4
Other	**1.0**	-	**-**	-
	234.1	348.5	**-**	30.8

(iv) Geographical analysis

The table below shows the geographic spread of the commercial loan portfolio at the year end date:

	Group 2023 £m	Group 2022 £m	**Society 2023 £m**	Society 2022 £m
East Anglia	**11.8**	17.3	**-**	4.3
East Midlands	**19.7**	24.1	**-**	1.0
Greater London	**14.7**	32.5	**-**	17.2
North	**21.3**	32.9	**-**	-
North West	**104.6**	131.4	**-**	3.6
Scotland	**0.3**	0.7	**-**	0.4
South East	**28.8**	37.7	**-**	0.8
South West	**6.5**	7.0	**-**	0.1
Wales	**-**	4.0	**-**	0.6
West Midlands	**6.4**	30.1	**-**	-
Yorkshire	**20.0**	30.8	**-**	2.8
	234.1	348.5	**-**	30.8

33. Credit risk (continued)

(v) Collateral

The Group's average indexed loan to value at the year end date is 119.3% (2021/22: 114.8%), calculated as a simple average across all commercial loans.

The following table indicates collateral held against commercial loans and advances to customers by IFRS 9 stage at 31 March:

Group Value of collateral held	Indexed 2023 £m	Unindexed 2023 £m	Indexed 2022 £m	Unindexed 2022 £m
Stage 1	**45.6**	**40.9**	174.5	164.7
Stage 2	**13.5**	**14.9**	38.9	42.3
Stage 3	**104.8**	**139.6**	129.1	162.2
	163.9	**195.4**	342.5	369.2

Society Value of collateral held	Indexed 2023 £m	Unindexed 2023 £m	Indexed 2022 £m	Unindexed 2022 £m
Stage 1	**-**	**-**	126.8	123.1

The collateral held consists of properties, land or other guarantees or cash included within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

(vi) Forbearance

Certain forbearance activities are applied on a small number of commercial mortgages. Loans that have been restructured (generally via a term extension) and would otherwise have been past due are classified as renegotiated. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans on the basis of new contractual terms following renegotiation.

The analysis below sets out the commercial mortgage gross exposures with evidence of forbearance and renegotiated terms at the year end date.

Group	Arrangements 2023 £m	Capitalisation 2023 £m	Term extensions 2023 £m	Total 2023 £m
Not past due	11.7	10.3	23.0	**45.0**
Past due up to 3 months	-	-	8.4	**8.4**
Past due 6 to 12 months	-	-	-	**-**
Past due over 12 months	7.5	-	-	**7.5**
	19.2	**10.3**	**31.4**	**60.9**

Group	Arrangements 2022 £m	Capitalisation 2022 £m	Term extensions 2022 £m	Total 2022 £m
Not past due	13.3	10.4	-	23.7
Past due 6 to 12 months	4.4	-	-	4.4
Past due over 12 months	3.6	-	-	3.6
	21.3	10.4	-	31.7

(d) Loans and advances to credit institutions and investment securities

The Group holds treasury investments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is monitored, managed and controlled closely by the Group.

At 31 March 2023, the Group and Society's loans and advances to credit institutions and investment securities held at amortised cost or FVOCI were all categorised as stage 1 and the associated ECLs were negligible. At the reporting date, 100% (2021/22: 100%) of the Group's treasury assets were invested in or deposited with counterparties rated single A or better or classified as a Global Systemically Important Counterparty (GSIC).

The tables below show the relative concentrations of the Group's treasury investment portfolio, all of which are denominated in sterling:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Concentration by credit grading				
AAA	**239.8**	271.4	**239.8**	271.4
AA+ to AA-	**663.3**	652.3	**663.3**	652.3
A+ to A-	**83.0**	87.9	**50.6**	41.7
Other	**0.5**	0.5	**371.1**	487.4
	986.6	1,012.1	**1,324.8**	1,452.8
Concentration by sector				
Financial institutions	**148.1**	88.2	**115.8**	42.0
Asset backed securities	**190.4**	189.5	**561.1**	676.4
Supranational institutions	**49.9**	82.4	**49.9**	82.4
Sovereign	**598.2**	652.0	**598.2**	652.0
	986.6	1,012.1	**1,325.0**	1,452.8
Concentration by region				
UK	**871.6**	912.3	**1,209.9**	1,353.0
Europe (excluding UK)	**19.3**	-	**19.3**	-
North America	**35.7**	17.4	**35.7**	17.4
Supranational	**49.9**	82.4	**49.9**	82.4
	986.7	1,012.1	**1,325.0**	1,452.8

(e) Intercompany loans

An ECL provision of £213.4m (2021/22: £199.1m) is held against intercompany loans of £784.6m (2021/22: £908.5m) to West Bromwich Commercial Limited and West Bromwich Mortgage Company where there is currently a shortfall in net assets; these loans are classified as Stage 2. The balance of £116.0m (2021/22: £118.7m) of intercompany investments and loans is classified as stage 1 with no provision against it (2022: £nil).

34. Market risk

Market risk is the potential adverse change in Group income, or the value of Group net worth, arising from movements in interest rates, exchange rates, equity prices or other market prices. The Board recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of member value.

The Group's exposure to market risk is governed by the Board approved Treasury and Financial Risk Management Policy, which sets out the nature of risks that may be taken and defines aggregate risk limits. Within this Policy, the Board has delegated responsibility for the management and control of market risk to the Assets & Liabilities Committee (ALCo). At each meeting, ALCo reviews reports which show the Group's current and forecast exposure to market risks together with the results of extensive stress testing.

The Society's Assets and Liabilities Management function is responsible for operational management of the Group's exposure to market risk. It achieves this by taking advantage of natural hedges arising within the Group's businesses and, for the purpose of reducing risk, transacting appropriate hedging instruments where no natural hedges exist.

The Group's use of derivative financial instruments to manage interest rate risk is explained in note 12 to the accounts.

Interest rate risk

The Group's exposure to interest rate risk is reported against target operating ranges set by ALCo, which themselves fall within Board Policy limits. The effect upon the Group's current and forecast net market value of assets and liabilities is determined for parallel yield curve shifts in the range +2.5% to -2.5%, subject to a defined floor, and for a variety of stressed non-parallel yield curve shifts. The impact upon net interest income is also assessed for rate movements using parallel shifts in the range +2.5% to -2.5%.

Analysis is also presented to show the mismatches between assets and liabilities whose rates move in line with different variable rate benchmarks such as Bank Rate, SONIA, LIBOR and rates administered by the Group. Such mismatches generate additional interest rate risks (basis risk) to those assessed by parallel shift analysis. The Board has a define risk appetites for basis mismatch.

To ensure that the overall reported interest rate risk position does not mask excessive offsetting concentrations in different periods, reprice gap concentration limits are in place to limit the maximum mismatch between assets and liabilities repricing in future time periods. In conducting this analysis, general reserves, CCDS and PIBS are allocated over a range of time buckets against treasury and other assets in accordance with targets set by ALCo. The resulting 'reverse cumulative gap report' allows the income and market value sensitivity of a one basis point movement in interest rates upon the whole balance sheet to be calculated.

The levels of Group pre-tax interest rate risk exposures to applicable parallel shifts, subject to the aforementioned floors, through the reporting period were as follows:

	At 31 March 2023 £m	Average 2023 £m	High 2023 £m	Low 2023 £m
Market value	**(6.5)**	(4.2)	(8.3)	(0.9)
Net interest income	**(0.7)**	(2.6)	(6.5)	(0.2)

The Group's gap and basis mismatch positions are reported quarterly to the Prudential Regulation Authority (PRA). The Society also employs Economic Value of Equity measures in line with PRA requirements. The Society's internal limits framework ensures that Interest Rate Risk in the Banking Book is controlled at much lower exposures than would trigger a notification to the PRA under the established reporting triggers. Further detail on the Society's management of interest rate risk is provided in the Risk Management report on page 38.

Capital Risk

The Group manages regulatory capital which substantially consists of Members Interests and Equity, as set out in the Capital Risk section of the Risk Management report on page 39.

35. Liquidity risk

The Society's principal purpose is to make loans secured by way of mortgage on residential property funded substantially by short-term savings from its members.

The contractual maturity of the mortgages is typically up to 30 years although loans are often repaid early due to borrowers moving house or remortgaging. In contrast, the majority of members' savings are available on demand or at short notice. It is this inherent mismatch between the maturity profile of mortgage lending and the easy accessibility of savings that creates liquidity risk.

The Group's exposure to liquidity risk is governed by the Liquidity and Funding Policy sections of the Board approved Treasury and Financial Risk Management Policy, taken together with its Individual Liquidity Adequacy Assessment Process (ILAAP).

The Liquidity and Funding limits are designed to ensure that adequate liquid assets are held to cover statutory, regulatory and operational cash requirements in both business-as-usual and stressed environments.

The Group's liquidity risk is managed as follows:

- The Board has delegated authority for the management of liquidity risk to the Assets & Liabilities Committee (ALCo) within risk tolerances set out in the Treasury and Financial Risk Management Policy. ALCo meets monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC). LMC meets regularly (typically weekly) to agree, based upon detailed customer behavioural analysis, the amount of funding required to maintain the adequacy of Group liquidity over horizons of up to three months. LMC plans cash requirements at a higher level over an extended rolling 12 month plan period;
- LMC also considers a series of daily, weekly and monthly stress tests which are designed to ensure that the Group maintains sufficient liquidity to meet its cash flow needs under any of a number of adverse scenarios. These scenarios simulate both Group specific, general market and combined events including severe savings outflows and the unavailability of wholesale funding; and
- Under the Prudential Regulation Authority's liquidity regime, the Group holds sufficient high quality liquid assets, such as government securities, supranational bonds, covered bonds and cash deposited with the Bank of England, to ensure that it can meet its liabilities over a 30 day period under stressed conditions. This is known as its Liquidity Coverage Ratio (LCR). The Group holds high quality liquidity above that required by the LCR in accordance with its own day-to-day assessment of liquidity adequacy. This includes stress testing over a number of horizons, including survival days' assessment out to 90 days.

The Overall Liquidity Adequacy Rule (OLAR) states that a regulated firm must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There are three measures that the Group considers key to meeting the OLAR:

- Liquidity ratios - the amount of liquidity necessary to meet its LCR and to maintain overall liquidity adequacy as determined by the society's ILAAP is assessed daily;
- Liquidity stress tests - adequacy of Group liquidity under a number of different stress scenarios is modelled and maintained within the Board's liquidity risk tolerance; and
- Refinancing gaps - the level of wholesale and combined retail/wholesale funding permitted to mature over given time periods is subject to Board approved limits.

Further details of liquidity management are contained within the Risk Management Report on pages 34 to 47.

35. Liquidity risk (continued)

The table below analyses the Group's assets and liabilities across maturity periods that reflect the residual maturity from the year end date to the contractual maturity date. The Group's liquidity management processes consider the actual repayment profiles of financial assets and liabilities which are likely to be significantly different to that shown in the analysis. Gross loan commitments are expected to mature within 3 months.

At 31 March 2023

Group	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	584.2	-	-	-	-	14.0	**598.2**
Loans and advances to credit institutions	35.9	36.9	-	-	-	-	**72.8**
Investment securities	-	25.5	147.8	104.4	37.9	-	**315.6**
Derivative financial instruments	-	1.4	13.4	82.7	3.0	-	**100.5**
Loans and advances to customers	-	181.3	19.6	447.3	3,892.2	(170.1)	**4,370.3**
Total financial assets	**620.1**	**245.1**	**180.8**	**634.4**	**3,933.1**	**(156.1)**	**5,457.4**
Financial liabilities							
Shares	2,844.1	144.6	403.0	914.6	-	-	**4,306.3**
Amounts due to credit institutions	-	109.5	-	716.7	-	-	**826.2**
Amounts due to other customers	5.2	47.0	8.1	2.8	-	-	**63.1**
Derivative financial instruments	-	-	0.8	5.7	0.2	-	**6.7**
Debt securities in issue	-	-	-	-	-	-	**-**
Subordinated liabilities	-	-	-	-	22.9	-	**22.9**
Total financial liabilities	**2,849.3**	**301.1**	**411.9**	**1,639.8**	**23.1**	**-**	**5,225.2**

At 31 March 2022

Group	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	637.0	-	-	-	-	15.0	652.0
Loans and advances to credit institutions	51.4	21.8	-	-	-	-	73.2
Investment securities	-	-	97.0	130.7	59.2	-	286.9
Derivative financial instruments	-	-	1.9	49.6	0.9	-	52.4
Loans and advances to customers	-	239.0	74.6	318.7	4,302.8	(156.8)	4,778.3
Total financial assets	688.4	260.8	173.5	499.0	4,362.9	(141.8)	5,842.8
Financial liabilities							
Shares	3,012.4	326.7	409.6	420.0	14.9	-	4,183.6
Amounts due to credit institutions	-	55.4	0.1	1,061.2	-	-	1,116.7
Amounts due to other customers	5.7	55.5	49.2	4.2	-	-	114.6
Derivative financial instruments	-	-	0.8	2.6	8.1	-	11.5
Debt securities in issue	-	-	-	171.2	-	-	171.2
Subordinated liabilities	-	-	-	-	22.9	-	22.9
Total financial liabilities	3,018.1	437.6	459.7	1,659.2	45.9	-	5,620.5

At 31 March 2023

Society	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	584.2	-	-	-	-	14.0	**598.2**
Loans and advances to credit institutions	3.6	36.9	-	-	-	-	**40.5**
Investment securities	-	25.5	147.9	104.4	408.4	-	**686.2**
Derivative financial instruments	-	1.4	13.4	82.7	3.0	-	**100.5**
Loans and advances to customers	-	7.6	7.8	119.4	3,162.7	(73.2)	**3,224.3**
Investments: loans in subsidiary undertakings	-	-	-	-	-	896.2	**896.2**
Total financial assets	**587.8**	**71.4**	**169.1**	**306.5**	**3,574.1**	**837.0**	**5,545.9**
Financial liabilities							
Shares	2,844.1	144.6	403.0	914.6	-	-	**4,306.3**
Amounts due to credit institutions	-	109.5	-	717.0	-	-	**826.5**
Amounts due to other customers	5.2	46.3	5.3	(0.5)	-	-	**56.3**
Derivative financial instruments	-	-	0.8	5.7	0.1	-	**6.6**
Subordinated liabilities	-	-	-	-	22.9	-	**22.9**
Total financial liabilities	**2,849.3**	**300.4**	**409.1**	**1,636.8**	**23.0**	**-**	**5,218.6**

At 31 March 2022

Society	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	637.0	-	-	-	-	15.0	652.0
Loans and advances to credit institutions	5.3	21.8	-	-	-	-	27.1
Investment securities	-	-	130.1	97.6	512.9	-	740.6
Derivative financial instruments	-	-	1.7	49.6	0.9	-	52.2
Loans and advances to customers	-	11.4	38.1	128.2	3,297.1	(45.3)	3,429.5
Investments: loans in subsidiary undertakings	-	-	-	-	-	1,027.2	1,027.2
Total financial assets	642.3	33.2	169.9	275.4	3,810.9	996.9	5,928.6
Financial liabilities							
Shares	3,012.4	326.7	409.6	420.0	14.9	-	4,183.6
Amounts due to credit institutions	-	55.4	-	1,060.8	-	-	1,116.2
Amounts due to other customers	3.5	55.5	48.6	1.0	153.7	-	262.3
Derivative financial instruments	-	-	0.8	2.7	7.9	-	11.4
Subordinated liabilities	-	-	-	-	22.9	-	22.9
Total financial liabilities	3,015.9	437.6	459.0	1,484.5	199.4	-	5,596.4

35. Liquidity risk (continued)

The significant development of liquidity stress testing and forecast models has continued throughout 2023 due to economic and market conditions. A wide range of scenarios is considered including mild and severe stresses, credit downgrades and a total closure of the wholesale market. An analysis of the liquidity portfolio is set out in the table below:

Group	2023 £m	2023 %	2022 £m	2022 %
Cash in hand and balances with the Bank of England	**598.2**	**60.7**	652.0	64.4
Cash with banks and building societies	**72.8**	**7.4**	73.2	7.3
Certificates of deposit	**75.3**	**7.6**	15.0	1.5
Fixed rate bonds	**-**	**-**	42.8	4.2
Floating rate notes	**49.8**	**5.0**	39.6	3.9
Covered bonds	**152.6**	**15.5**	130.3	12.9
Residential mortgage backed securities	**37.9**	**3.8**	59.2	5.8
Total	**986.6**	**100.0**	1,012.1	100.0

The following table is an analysis of the gross contractual cash flows payable under financial liabilities:

At 31 March 2023

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,140.7	474.6	746.5	4.4	**4,366.2**
Amounts due to credit institutions and other customers	167.9	28.1	749.6	-	**945.6**
Derivative financial instruments	0.5	1.1	3.4	-	**5.0**
Subordinated liabilities	1.2	1.2	9.9	48.5	**60.8**
	3,310.3	**505.0**	**1,509.4**	**52.9**	**5,377.6**

At 31 March 2022

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,357.7	439.0	400.3	-	4,197.0
Amounts due to credit institutions and other customers	115.7	48.6	1,083.5	-	1,247.8
Derivative financial instruments	0.7	-	7.9	0.9	9.5
Debt securities in issue	0.6	173.3	-	-	173.9
Subordinated liabilities	-	2.5	9.9	49.8	62.2
	3,474.7	663.4	1,501.6	50.7	5,690.4

At 31 March 2023

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,140.7	474.6	746.5	4.4	**4,366.2**
Amounts due to credit institutions and other customers	167.9	28.1	749.6	-	**945.6**
Derivative financial instruments	0.5	1.1	3.4	-	**5.0**
Subordinated liabilities	1.2	1.2	9.9	48.5	**60.8**
	3,310.3	**505.0**	**1,509.4**	**52.9**	**5,377.6**

At 31 March 2022

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,357.7	439.0	400.3	-	4,197.0
Amounts due to credit institutions and other customers	115.7	48.6	1,083.5	-	1,247.8
Derivative financial instruments	0.7	-	7.9	0.9	9.5
Subordinated liabilities	-	2.5	9.9	49.8	62.2
	3,474.1	490.1	1,501.6	50.7	5,516.5

For each material class of financial liability a maturity analysis is provided on pages 158 to 159.

36. Financial commitments

The maturity analysis of lease liabilities is analysed in the table shown below:

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
a) Leasing commitments				
Less than three months	**0.1**	0.1	**0.1**	0.1
Greater than three months and less than one year	**0.3**	0.3	**0.3**	0.3
Between one and five years	**1.4**	1.3	**1.4**	1.3
After five years	**0.3**	0.3	**0.3**	0.3
	2.1	2.0	**2.1**	2.0

The Society earns rental income on subletting parts of three (2021/22: seven) of its freehold branches to residential and commercial tenants. The income received from this is negligible and is regarded as rental income.

	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
b) Loan commitments				
Undrawn loan facilities	**243.1**	169.4	**218.0**	154.9
c) Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	**-**	-	**-**	-

37. Related party transactions

i) Subsidiary, parent and ultimate controlling party

The Group is controlled by West Bromwich Building Society which is considered to be the ultimate parent undertaking. The subsidiaries of the Society are detailed in note 15. The Group's registered office and principal place of business is 2 Providence Place, West Bromwich, B70 8AF.

ii) Key management personnel

The Board considers key management personnel to comprise Executive and Non-Executive Directors. Details of Directors' emoluments are disclosed in note 8 and the Directors' Remuneration report.

iii) Transactions with key management personnel and their close family members

The table below shows outstanding balances and transactions with key management personnel, which comprises Group Directors, and their close family members:

Group and Society	No. of key management personnel 2023	Amount in respect of key management personnel and their close family members 2023 £000	No. of key management personnel 2022	Amount in respect of key management personnel and their close family members 2022 £000
Savings balances at 31 March	11	130	10	62
Interest payable on savings balances	11	1	10	0

Mortgage loans and savings are available to key management personnel and members of their close family at normal commercial terms. At 31 March 2023, there was 1 mortgage loan outstanding to Directors and their connected persons of £0.2m (31 March 2022: 1 outstanding of £0.2m).

A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and Directors of the Society or persons connected with Directors of the Society. The register will be available for inspection by members at the Annual General Meeting and during normal office hours at the Society's Principal Office (2 Providence Place, West Bromwich) during the period 15 days prior to the meeting.

iv) Contributions to pension schemes

During the year the Group paid contributions of £6.8m (2021/22: £4.5m) to defined benefit pension schemes, which are classified as related parties.

As part of the ongoing funding agreement for the West Bromwich Building Society Staff Retirement Scheme (the SRS), the Trustees of the SRS have been granted a charge over the Society's Head Office, which may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS.

v) Transactions with subsidiary companies

	Interest paid to Society 2023 £m	Interest paid to Society 2022 £m
Insignia Finance Limited	0.1	0.1
West Bromwich Commercial Limited	5.5	10.4
West Bromwich Homes Limited	2.8	2.8
West Bromwich Mortgage Company Limited	8.9	9.7
	17.3	23.0

At the year end the following balances were outstanding with subsidiary companies:

	Loans owed by subsidiaries 2023 £m	Loans owed by subsidiaries 2022 £m
Insignia Finance Limited	1.8	3.3
West Bromwich Commercial Limited	350.2	378.8
West Bromwich Homes Limited	114.3	115.4
West Bromwich Mortgage Company Limited	430.2	529.7
	896.5	1,027.2

Transactions and balances between Group companies are on normal commercial terms and conditions.

The loans owed by West Bromwich Commercial Limited are net of impairment provisions of £199.6m (2021/22: £187.0m) and the loans owed by West Bromwich Mortgage Company Limited are net of impairment provisions of £13.8m (2021/22: £12.1m).

38. Business segments

Operating segments are reported in accordance with the internal reporting provided to the Group Board (the chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group has three main business segments:

- Retail - incorporating residential lending, savings, investments and protection;
- Commercial real estate - primarily representing loans for commercial property investment; and
- Property - a portfolio of residential properties for rent.

Central Group operations have been included in Retail and comprise risk management, finance, treasury services, human resources and computer services, none of which constitute a separately reportable segment.

From 2018/19 onwards, the Group commenced responsible buy to let lending to limited companies which is reported within the Retail segment. The segment previously termed 'Commercial' is now reported as 'Commercial real estate'. There were no other changes to reportable segments during current or prior year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Board is measured in a manner consistent with that in the consolidated Income Statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. Central administrative costs are also allocated between segments and are disclosed in inter-segment administrative expenses. There are no other material items of income or expense between the business segments.

The Group does not consider its operations to be cyclical or seasonal in nature.

Income Statements for the year ended 31 March 2023

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	145.5	8.2	-	(7.8)	145.9
On instruments measured at fair value through profit or loss	27.1	1.2	-	-	28.3
Total interest receivable and similar income	172.6	9.4	-	(7.8)	174.2
Interest expense and similar charges	(91.3)	(4.8)	(2.8)	7.9	(91.0)
Net interest receivable/(expense)	**81.3**	**4.6**	**(2.8)**	**0.1**	**83.2**
Fees and commissions receivable	1.3	0.1	-	-	1.4
Other operating income	0.4	-	4.0	-	4.4
Fair value gains on financial instruments	4.6	2.0	-	-	6.6
Total income	**87.6**	**6.7**	**1.2**	**0.1**	**95.6**
Administrative expenses	(38.7)	(1.1)	(0.2)	-	(39.9)
Depreciation and amortisation	(5.8)	-	-	-	(5.8)
Operating profit before revaluation gains, impairment and provisions	**43.2**	**5.6**	**1.0**	**0.1**	**49.9**
Gains on investment properties	-	-	6.0	-	6.0
Impairment on loans and advances	(2.9)	(21.1)	-	-	(24.1)
Provisions for liabilities	-	-	-	-	-
Profit/(Loss) before tax	**40.3**	**(15.5)**	**6.9**	**0.1**	**31.8**

Statements of Financial Position at 31 March 2023

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	**5,808.7**	**163.0**	**156.2**	**(438.6)**	**5,689.3**
Total liabilities	**5,419.5**	**371.9**	**125.4**	**(658.0)**	**5,258.8**
Capital expenditure	**6.3**	**-**	**-**	**-**	**6.3**

38. Business segments (continued)

Income Statements for the year ended 31 March 2022

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	106.9	7.2	-	(14.1)	100.0
On instruments measured at fair value through profit or loss	(12.7)	-	-	-	(12.7)
Total interest receivable and similar income	94.2	7.2	-	(14.1)	87.3
Interest expense and similar charges	(25.6)	(10.9)	(2.8)	14.1	(25.2)
Net interest receivable/(expense)	68.6	(3.7)	(2.8)	-	62.1
Fees and commissions receivable	1.9	-	-	-	1.9
Other operating income	-	-	3.7	-	3.7
Fair value gains on financial instruments	3.9	6.7	-	-	10.6
Total income	74.4	3.0	0.9	-	78.3
Administrative expenses	(44.5)	(0.9)	(0.1)	-	(45.5)
Depreciation and amortisation	(7.4)	-	-	-	(7.4)
Operating profit before revaluation gains, impairment and provisions	22.5	2.1	0.8	-	25.4
Gains on investment properties	-	-	5.8	-	5.8
Impairment on loans and advances	4.4	(12.5)	-	-	(8.1)
Provisions for liabilities	0.1	-	-	-	0.1
Profit/(Loss) before tax	27.0	(10.4)	6.6	-	23.2

Statements of Financial Position at 31 March 2022

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	6,125.4	257.3	150.6	(466.0)	6,067.3
Total liabilities	5,775.3	406.3	124.8	(656.4)	5,650.0
Capital expenditure	4.6	-	-	-	4.6

39. Asset encumbrance

Certain financial assets have been utilised as collateral to support the wholesale funding initiatives of the Group. As the Group has retained substantially all of the risks and rewards of ownership, the assets remain on the Statement of Financial Position but are encumbered and cannot be utilised for other purposes.

As described in note 13, the Group has established a number of securitisation structures funded by the issue of mortgage backed securities (MBSs). Retained MBSs and designated mortgage loan pools may be pledged as collateral for participation in Bank of England funding schemes.

For liquidity management purposes, the Society also enters into sale and repurchase agreements whereby it sells investment securities to third parties with a commitment to repurchase them at a future date. The proceeds of the sale and repurchase agreements are included within amounts due to credit institutions.

An analysis of Group assets pledged at 31 March is set out below.

	Encumbered 2023 £m	**Unencumbered 2023 £m**	Encumbered 2022 £m	Unencumbered 2022 £m
Cash and balances at the Bank of England	**14.0**	**584.2**	15.1	636.9
Loans and advances to credit institutions	**37.9**	**35.9**	38.9	34.3
Investment securities	**-**	**315.6**	-	286.9
Derivative financial instruments	**-**	**100.5**	-	52.4
Loans and advances to customers	**922.2**	**3,448.1**	1,598.4	3,179.9
Other assets	**-**	**231.0**	-	224.5
	974.0	**4,715.3**	1,652.4	4,414.9

Included in the above, at 31 March 2023, Group loans and advances to credit institutions included £36.9m (2021/22: £21.8m) of collateral pledged against derivative financial instruments.

Country-by-Country Reporting

Capital Requirements (Country-by-Country) reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 aim to give increased transparency regarding the activities of institutions.

West Bromwich Building Society (the Society) is the 7th largest building society in the United Kingdom (UK). As a mutual organisation, the Society is owned and run for the benefit of its members with the safety of members' funds being paramount. In providing a safe haven for members' funds, the Society can fulfil its primary purpose of enabling home ownership through the provision of mortgages.

These consolidated financial statements of the West Bromwich Building Society Group (the Group) include the audited results of the Society, its subsidiary undertakings and a number of securitisation entities. The consolidated entities, their principal activities and countries of incorporation are detailed in note 15. All of the consolidated entities are incorporated in the UK, with the exception of Hawthorn Finance Limited which is incorporated in Jersey.

Basis of preparation

- The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in note 7.
- Turnover represents Group total income as disclosed in the Group Income Statement. Total income comprises net interest, fees and commissions receivable and other operating income, together with fair value gains/losses and net realised profits/losses on financial instruments.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Income Statement.
- Corporation tax receipts/payments represent the amount of tax received/paid during the year, as disclosed in the Group Cash Flow Statement.
- Public subsidies received represent direct support by the government and exclude any central bank operations that are designed for financial stability purposes or operations that aim to facilitate the functioning of the monetary policy transmission mechanism.

	2023	2022
Average number of Group employees, all of which employed in the UK	**633**	626
Arising in the UK:	**£m**	£m
Group total income	**95.6**	78.3
Group profit before tax	**31.8**	23.2
Group corporation tax payments/(receipts)	**0.2**	(0.2)
Public subsidies received by the Group	**-**	-

Hawthorn Finance Limited did not transact with entities outside the Group and had no employees (2021/22: nil).

Independent auditors' report to the directors of West Bromwich Building Society

Report on the audit of the country-by-country information

Opinion

In our opinion, West Bromwich Building Society's country-by-country information for the year ended 31 March 2023 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 March 2023 in the Country-by-Country Reporting.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the basis of preparation note of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the society's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of key assumptions used by the directors in their determination of the going concern of the Group and Society;
- Review of key regulatory returns in relation to liquidity and capital and consideration of the stress testing performed;
- Consideration as to whether our audit work had identified events or conditions which may give rise to uncertainty as to the Group's future ability to trade; and
- Review of legal and regulatory correspondence to ensure that any compliance issues which may impact the going concern of the Group had not been identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the society's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the society's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation statement to the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information
It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud:

Based on our understanding of the society/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations including, but not limited to, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to reduce expenditure and increase income and inappropriate management bias in accounting estimate . Audit procedures performed included:

- Review of the financial statement disclosures to underlying supporting documentation;
- Review of correspondence with and reports to the regulators;
- Testing significant accounting estimates;
- Testing of the assumptions used within the effective interest rate method for recognising interest income for their appropriateness;
- Testing of journal entries which contained unusual account combinations back to corroborating evidence;
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Specific audit procedures over non-interest revenue streams significant to the Group accounts.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinion, has been prepared for and only for the society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this audit is Daniel Brydon.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
31 May 2023

Annual Business Statement

1. Statutory percentages

	2023 %	Statutory limit %
Lending limit	**6.8**	25.0
Funding limit	**17.1**	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group plus allowance for losses on loans and advances less liquid assets, investment properties, intangible assets and property, plant and equipment as shown in the Group Statement of Financial Position.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

Securitised assets and related liabilities are excluded from the lending limit and funding limit calculations in line with the Building Societies Act 1986 as updated by the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2023 %	2022 %
As a percentage of shares and borrowings:		
Gross capital	**8.73**	7.88
Free capital	**5.16**	4.65
Liquid assets	**18.99**	18.12
As a percentage of mean total assets:		
Profit for the financial year	**0.45**	0.41
Management expenses	**0.78**	0.89

The above percentages have been prepared from the Group's accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, in each case including accrued interest.
- 'Gross capital' represents the aggregate of general reserves, revaluation reserve, fair value reserve, core capital deferred shares, subscribed capital and subordinated liabilities.
- 'Free capital' represents the aggregate of gross capital and collective impairment provisions for losses on loans and advances less intangible assets, investment properties and property, plant and equipment.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash and balances with the Bank of England, loans and advances to credit institutions and investment securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

Information relating to Directors' and Officers' other directorships and interests at 31 March 2023

Name, qualification and age	Role	Date of appointment	Other directorships and interests
Dave Dyer BA Hons. (Cantab.), MBA, FCMA Age 66	Non-Executive Director	1 September 2021	DAD Associates Limited
Anne Gunther BSc, MBA, ACIB, FSCIB Age 68	Non-Executive Director	1 November 2021	Mattioli Woods Plc
Julie Hopes MBA, ACIB Age 55	Deputy Chair	1 April 2016	MS Amlin Underwriting Limited Saga Personal Finance Limited SAGA Services Limited SAGA Plc Kingston Gorse Estate (Sussex) Limited
John Maltby Age 61	Chair	1 January 2021	Allica Bank Ltd Max Nicholas Renewables Ltd Nordea Bank
Victoria Mitchell LLB (Hons) Age 58	Non-Executive Director	1 April 2018	N Brown Group Plc
Lynne Shamwana BA FCA Age 60	Non-Executive Director	1 February 2019	Southbank Centre Enterprises Limited Southbank Centre Limited 61 Queens Gardens (Freehold) Ltd Overs Farm Residents Company Ltd Antin Infrastructure Partners AS
David Thomas MSc, ACIB, FIB (Ireland) Age 61	Non-Executive Director	1 August 2020	Harrogate Homeless Project Limited TD Bank Europe Limited
Manjit Hayre Age 56	Chief Risk Officer	1 September 2021	
Martin Boyle Age 52	Chief Operating Officer	3 April 2023	West Bromwich Mortgage Company Limited Insignia Finance Ltd White Label Lending Limited CL Mortgages Limited
Alex Pawley Age 40	Chief Financial Officer	1 January 2023	West Bromwich Mortgage Company Limited Insignia Finance Ltd White Label Lending Limited CL Mortgages Limited
Jonathan Westhoff BA (Hons) Financial Services, FCMA, CGMA, ACIB Age 58	Chief Executive Officer	5 May 2009	West Bromwich Commercial Limited West Bromwich Homes Limited West Bromwich Mortgage Company Limited Insignia Finance Ltd White Label Lending Limited West Bromwich Building Society Foundation

All Directors are members of the Society. None of the Directors have at any time in the year, or at the year end, any beneficial interest in shares or debentures of any associated body of the Society.

Service contracts

The Society's policy in relation to the duration of contracts for the Executive Directors is that their contract would normally continue until termination by either party, subject to the required notice or until retirement. The service contract is terminable with 12 months' notice if given by the Society or six months' notice if given by the Director. Jonathan Westhoff entered into his contract as Chief Executive Officer on 25 May 2011, Alex Pawley entered into his service contract as Chief Financial Officer on 1 January 2023 and Manjit Hayre entered into his service contract as Chief Risk Officer on 1 September 2021, on this basis.

For further details of the Executive Directors' service contracts, see the Directors' Remuneration Report on pages 70 to 81.

Documents may be served on any of the above named Directors at the following address: Addleshaw Goddard, 3 Sovereign Square, Sovereign Street, Leeds, LS1 4ER.

Senior management	Role	Group directorships
Andrea Hackett	Divisional Director, Operations	
John McErlean MIIA, FIIA	Chief Internal Auditor	
Neil Noakes	Group Secretary	Insignia Finance Limited WBBS (SRS) Limited West Bromwich Homes Limited White Label Lending Limited
Sophie Pazzaglia BSc (Hons), FCCA, ACG	Chief People Officer	
James Wright BSc, ACIB, CIM Dip	Divisional Director, Sales & Marketing	

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears – Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is unpaid or overdue. The value of the arrears is the value of the payments that have been missed.

Asset backed securities (ABS) – Securities that represent an interest in an underlying pool of referenced assets. Typically these assets are pools of residential or commercial mortgages.

Basel III framework – The Basel Committee on Banking Supervision's strengthened global regulatory standards on bank capital adequacy and liquidity, defining the methods by which firms should calculate their regulatory capital requirements in order to protect the financial system against unexpected losses.

Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) – CRD IV, comprising the Capital Requirements Regulation and the Capital Requirements Directive, was the legislative package which implemented the Basel III agreement. The legislation has been subsequently updated with the latest package commonly referred to as CRD V/CRR II. The elements of CRD V and CRR II, which did not come into force in the EU until after the end of the Brexit transition period, have subsequently been implemented in the UK via the PRA Rulebook.

Commercial lending – Loans secured on commercial property assets which can include office buildings, industrial property, hotels, medical centres, shopping centres, farm land, buy to let and housing association properties.

Commercial mortgage backed securities (CMBS) – Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Common Equity Tier 1 (CET 1) capital – CET 1 capital comprises internally generated capital from general reserves and other reserves less intangible assets, goodwill and other regulatory adjustments.

Common Equity Tier 1 capital ratio – Common Equity Tier 1 capital as a percentage of risk weighted assets.

Contractual maturity – The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Core Capital Deferred Shares (CCDS) – A form of Common Equity Tier 1 (CET 1) capital issued by building societies.

Credit risk – The risk that a customer or counterparty is unable to honour their obligations as they fall due.

Debt securities in issue – Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit and non-recourse finance.

Derivative financial instruments – A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value depends on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate risk.

Equity, Diversity and Inclusion (EDI) – A framework which ensures fair treatment and opportunity for all. It aims to eradicate prejudice and discrimination on the basis of an individual or group of individual's protected characteristics.

Effective interest method – The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid or received between parties to the contract that are considered integral.

Encumbered assets – Assets held on the Statement of Financial Position which have been used as security for funding or otherwise pledged.

Environmental, Social and Governance (ESG) – a framework that helps stakeholders understand how an organisation is managing risks and opportunities related to environmental, social, and governance criteria.

Expected credit loss (ECL) – A term used in the calculation of impairment provisions under accounting standard IFRS 9 'Financial Instruments'. The ECL is the present value of all cash shortfalls over the expected life of a financial instrument.

Exposure at default (EAD) – An estimate of the outstanding balance on a financial asset at the time of default.

Fair value – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value through other comprehensive income (FVOCI) assets – Financial assets held at fair value in the Statement of Financial Position with changes in fair value being recognised through other comprehensive income.

Fair value through profit or loss (FVTPL) assets – Financial assets held at fair value in the Statement of Financial Position with changes in fair value being recognised through the Income Statement.

Financial Conduct Authority (FCA) – The conduct regulator for financial services firms in the UK, with objectives to protect consumers and financial markets and to promote competition.

Financial Services Compensation Scheme (FSCS) – The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every deposit-taking firm authorised by the FCA and PRA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.

Forbearance – Support offered to borrowers experiencing genuine financial hardship to enable them to remain in their homes, where this action is not expected to increase the level of debt in the long term.

Free capital – Gross capital less intangible assets, investment properties and property, plant and equipment. In 2017/18, free capital was adjusted for collective mortgage impairment provisions which are no longer applicable under IFRS 9.

Funding limit – Measures the proportion of shares and borrowings not in the form of shares held by individuals excluding non-recourse finance. The calculation of the funding limit is explained in the Annual Business Statement.

General Data Protection Regulation (GDPR) – A legal framework that sets guidelines for the collection and processing of personal information from individuals who live in the EU.

Goodwill – Goodwill arises on the acquisition of subsidiary undertakings, joint ventures, associates or businesses and represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition.

Greenhouse gas (GHG) emissions – A greenhouse gas (GHG) is a gas that absorbs and emits radiant energy at thermal infrared wavelengths, and that contribute to the greenhouse effect and global climate change.

Gross capital – The aggregate of reserves, subscribed capital, subordinated liabilities and core capital deferred shares.

House Price Index – This is a measure of the housing price change, in percentage terms, from a specific start date.

Interbank Offered Rate (IBOR) – A benchmark interest rate at which banks lend to and borrow from one another in interbank markets.

Impaired loans – Under IFRS 9, impaired loans are those assessed as stage 3 (default). In previous years, under IAS 39, impaired loans were defined as loans where there was evidence to suggest that the Group would not receive all of the contractual cash flows or there was an expectation that the cash flows would be received at a later date than when they were contractually due.

Individual Liquidity Adequacy Assessment (ILAA) – The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.

Individually/collectively assessed – Prior to IFRS 9 adoption on 1 April 2018 the Group assessed, at each reporting date, whether or not there was objective evidence that individual financial assets were impaired. If no objective evidence of impairment existed for an individually assessed financial asset, it was included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. A collective provision was made against a group of financial assets where there was evidence that credit losses had been incurred, but not individually identified, at the reporting date.

Interest rate risk – Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Internal Capital Adequacy Assessment Process (ICAAP) – The Group's own assessment, as part of regulatory requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.

Internal Liquidity Adequacy Assessment Process (ILAAP) – The Group's own assessment of the controls required to mitigate liquidity risk, including the minimum volume and quality of liquidity to be held in respect of the risks it faces under a variety of stress scenarios.

International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol – A protocol created to address the expected cessation of LIBOR and other IBORs. It enable parties to Protocol Covered Documents to amend the terms of each such Protocol Covered Document.

Investment securities – Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings.

Law of Property Act (LPA) Receiver – A receiver appointed to manage a property, held as security for a mortgage, where the contractual terms of the mortgage have not been met.

Lending limit – Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement.

Leverage ratio – Tier 1 capital as a percentage of total exposures which include on and off balance sheet assets after netting derivatives.

Liquid assets – Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities.

Liquidity coverage ratio (LCR) – A measure which aims to ensure that an entity maintains an adequate level of liquidity to meet its needs for a 30 day period under severe stress conditions.

Liquidity risk – The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash inflows and outflows.

Loan to value (LTV) – A ratio which expresses the balance of a mortgage as a percentage of the value of the property on which it is secured. The Group calculates residential mortgage LTV on an indexed basis. The value of the property is updated on a quarterly basis to reflect changes in the House Price Index (HPI).

Loans past due/past due loans – Loans on which payments are overdue including those on which partial payments are being made.

London Inter-Bank Offered Rate (LIBOR) – A benchmark interest rate, expected to cease in 2021, at which a selection of banks on the London money market are prepared to lend to one another.

Loss given default (LGD) – The difference between exposure at default (EAD) and the net amount expected to be recovered on a defaulted loan, expressed as a percentage of EAD.

Management expenses – Management expenses represent administrative expenses plus depreciation and amortisation. The management expenses ratio is calculated as management expenses expressed as a percentage of mean total assets.

Market risk – The risk of changes in the value of, or income arising from, assets and liabilities as a result of unexpected changes in financial prices, primarily interest rates, property prices, bond yields and inflation.

Mean total assets – Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Medium term notes (MTN) – Securities offered by a company to investors, through a dealer, across a range of maturities.

Member – A person who has a share investment or a mortgage loan with the Society.

Mortgage backed securities (MBS) – Securities that represent an interest in an underlying pool of mortgage assets.

Net interest income – The difference between interest received on assets and interest paid on liabilities.

Net interest margin – Net interest income as a percentage of mean total assets.

Net Promoter Score (NPS) – A measure, ranging from -100 to +100, of the likelihood that a customer would recommend a product, service or brand. Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Net stable funding ratio (NSFR) – A ratio calculated as the amount of available stable funding against the amount of required stable funding.

Non-recourse finance – A secured loan (debt) that is secured by a pledge of collateral but for which the borrower is not personally liable. If the borrower defaults, the lender can seize the collateral, but the lender's recovery is limited to the collateral alone.

Operational risk – The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Other income – The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products, other insurances. It also includes rental income from investment property).

Permanent interest bearing shares (PIBS) – Unsecured, deferred shares that rank behind the claims of all depositors, payables and investing members of the West Brom with the exception of the claims of holders of core capital deferred shares and (in prior years) profit participating deferred shares.

Prime – Prime mortgages are those granted to the most credit worthy category of borrower.

Probability of default (PD) – The estimated probability that a borrower will default on their credit obligations.

Probability of Possession given default – The estimated probability that a borrower moves to possession from a default status.

Profit participating deferred shares (PPDS) – A form of unsecured Common Equity Tier 1 capital, fully cancelled following the Liability Management Exercise completed in April 2018.

Prudential Regulation Authority (PRA) – The prudential regulator for UK banks, building societies and insurers, with a general objective to promote the safety and soundness of the firms it regulates.

Renegotiated loans – Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower.

Repo/Reverse repo – Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as asset backed securities (ABS) or government bonds as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential loans – Mortgage lending secured against residential property.

Residential mortgage backed securities (RMBS) – A category of asset backed securities (ABS) that represents interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Risk appetite – The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of its members whilst achieving business objectives.

Risk weighted assets (RWA) or risk-weighted exposure amount (RWEA) – The value of an on or off-balance sheet exposure adjusted under Pillar 1 rules to reflect the degree of risk it presents.

Royal Institution of Chartered Surveyors (RICS) – A professional body promoting and enforcing international standards in the valuation, management and development of land, real estate, construction and infrastructure.

Securitisation – A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of new securities. An entity transfers these assets to a structured entity which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities.

Shares – Money deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings – The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.

Significant increase of credit risk (SICR) – A term used in IFRS 9 where quantitative and/or qualitative factors indicate that the credit risk associated with a non-defaulted loan has increased significantly since it was initially recognised in the Statement of Financial Position. Where a SICR has occurred, the loan is categorised as stage 2 requiring the recognition of lifetime expected credit losses.

Solely payments of principal and interest (SPPI) test – An assessment of whether the contractual terms of a financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding. It is used to determine the appropriate measurement basis for the financial asset under IFRS 9.

Stage 1 – The IFRS 9 category to which financial assets held at amortised cost or FVOCI, which have not experienced a SICR since initial recognition, are assigned. 12-month ECLs are recognised for stage 1 assets and interest income is calculated by applying the effective interest rate to the gross carrying amount.

Stage 2 – The IFRS 9 category to which financial assets held at amortised cost or FVOCI, which have experienced a SICR since initial recognition, are assigned. Lifetime ECLs are recognised for stage 2 assets and interest income is calculated by applying the effective interest rate to the gross carrying amount.

Stage 3 – The IFRS 9 category to which defaulted financial assets held at amortised cost or FVOCI are assigned. Lifetime ECLs are recognised for stage 3 assets and interest income is calculated by applying the effective interest rate to the net (of impairment provision) carrying amount.

Sterling Overnight Index Average (SONIA) – A benchmark interest rate administered by the Bank of England, SONIA is a measure of the rate at which interest is paid on sterling short-term wholesale funds in circumstances where credit, liquidity and other risks are minimal.

Streamlined Energy & Carbon Reporting (SECR) – A framework which aims to bring the benefits of carbon and energy reporting to more businesses

Subordinated liabilities – A form of unsecured Tier 2 capital. The Society's subordinated notes rank behind all other creditors of the Society, with the exception of holders of CCDS and PIBS.

Taskforce on Climate-Related Financial Disclosures (TCFD) – The Society's Taskforce on Climate-Related Financial Disclosure (TCFD) aligned disclosure in the areas of Governance, Strategy, Risk Management, and Metrics & Targets.

Term Funding Scheme (TFS) – A scheme launched by the Bank of England, providing term funding to banks and building societies with the aim of promoting UK lending growth. Term Funding Scheme with additional incentives for SMEs (TFSME) is an equivalent scheme launched in March 2020.

Tier 1 capital – An element of regulatory capital and measure of financial strength, comprising Common Equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital is not deemed to be fully loss absorbing and can only be included in capital under the transitional arrangements of CRD IV.

Tier 2 capital – An element of regulatory capital comprising subordinated liabilities, eligible collective impairment allowances (in 2017/18) and certain regulatory deductions made for the purposes of assessing capital adequacy.

Total Capital Requirement (TCR) – The minimum amount of capital the Society is required to hold, set by the PRA and informed by the ICAAP.

Wholesale funding – The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue.

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Head Office: 2 Providence Place, West Bromwich B70 8AF.
www.westbrom.co.uk

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