Annual Report and Accounts

Year Ended 31 March 2012

the West Brom

Annual Report and Accounts
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Contents

Key highlights from the 2011/12 financial year include:

- An increase in the Group's Core Tier 1 capital ratio from 12.8% to 13.3%, remaining one of the highest among UK banks and building societies.
- Strong levels of high quality liquidity balances maintained.
- Market-leading rates delivered to our savings members, with savers earning on average 1.86% higher than Bank Rate.
- Retail savings inflows of £2.4bn, attracting some 52,300 new savers, with residential mortgages covered 1.31 times by retail deposits.
- Net interest margin improved slightly to 0.47% (2010/11: 0.43%).
- A reduction of 38% in credit impairment charges.
- Pre-tax losses further reduced, by 31% to £9.5m (2010/11: £13.8m).
- The underlying loss from continuing operations, almost halved from £15.6m to £8.2m.

"The Society's strengths are embodied in our Back to Basics strategy, which has produced a framework for stability and renewal that is clearly evident, as shown in our continued progress."

Chairman's Statement

Mark Nicholls

The past year has been one of steady progress for the Society on a number of fronts, reflecting the continuing success of our Back to Basics strategy.

Back to Basics – a successful strategy

The repercussions of the prolonged historically low Bank Rate have been felt throughout the financial services sector. Despite the pressure this places on our interest margin, we have maintained our commitment to support our customers.

For our savers, this has meant offering some of the best rates in the market throughout the year. Our borrowers have also continued to benefit from the low Bank Rate, with the average rate paid on residential mortgage loans falling still further.

A key priority for our Back to Basics strategy has been to exit from our non-core businesses, such as commercial lending, residential property letting and second charge lending. We have made it clear that this will take a number of years but I can report a further significant reduction in both our commercial lending and second charge lending balances.

Despite this encouraging progress, these non-core businesses were the principal reasons for our reported loss before tax of £9.5m for the year. This represented a noticeable reduction on 2010/11.

Changes to the Board – a strong team

Our Board is composed of individuals with the necessary skills and experience to oversee the strategic direction of the Society. We also have a collective responsibility for making sure we have the people, controls and systems to implement that strategy successfully.

Since our last Report and Accounts were issued, we have welcomed two new Non-Executive Directors to the Board, Colin Walklin and Claire Hafner.

Colin, who was appointed to the Board in July 2011, is currently Chief Operating Officer and Finance Director for Standard Life Investments where he has responsibility for operations, technology, change management and all aspects of the financial management of the business. He chairs our Audit & Compliance Committee.

Claire joined the Board in September 2011. She has a wealth of senior management experience gained through a number of diverse roles, including the position of Finance Director with the international law firm, Eversheds. Claire is Chief Financial Officer for VocaLink, a specialist provider of transaction services to banks, their corporate customers and Government departments.

During the year, the Board reviewed the arrangements for the election of directors in the light of changes to the UK Corporate Governance Code. As a result, half of the Society's Directors will be standing for election each year, commencing with the AGM in July. Further details can be found in the Directors' Report on Corporate Governance.

Looking Ahead – steering a steady course

Forecasting the prospects for the economy is very difficult. There is continuing uncertainty, especially within the eurozone. UK interest rates look set to remain at their historically low level and, as we have said consistently, the Society will, in supporting its savers, experience significant pressure on its margins until Bank Rate increases.

Nevertheless, we can take heart from the progress of our strategy which has effectively re-focused the West Brom's sights on those core building society competencies of savings, prime residential mortgages and investments. It is also particularly encouraging to report our return to the mortgage market following the successful implementation of a new mortgage processing system.

We remain fully committed to providing a secure home for our members' savings and to supporting their home ownership aspirations. I would like to close by expressing my gratitude for the continued support and loyalty of the Society's members, and to thank our staff who continue to work with such dedication and commitment for the benefit of our members.

Mark Nicholls
Chairman
31 May 2012

Chief Executive's Review

Jonathan Westhoff

Introduction – building on progress

Few would disagree that earlier hopes for a return to a sustained economic recovery proved short-lived. Given this challenging operating climate, I am pleased to report that the West Brom has again shown progress over the last year, in line with our Back to Basics strategy and its emphasis on the core building society priorities of retail savings, investments and prime residential mortgages.

This strategy has delivered increased capital ratios and strong levels of high quality liquidity.

The benefits of this approach were also reflected in our financial results, which showed further improvement, as can be seen in the pre-tax loss figure where we recorded a reduction of some 31.2% to £9.5m. Even more significantly, the underlying loss almost halved from £15.6m to £8.2m.

The pressure on interest margins remains relentless due to Bank Rate being at an all-time low of 0.5%. This creates significant challenges, particularly as a high proportion of the Group's residential mortgages are linked to Bank Rate. At the same time, we have been determined to support savers during a period of persistent low interest rates and relatively high inflation.

Economic Overview – a mood of uncertainty

The financial services sector is still feeling the impact of the turmoil that has now been with us for several years. Signs of a sustained recovery in the UK are yet to emerge, and we recently saw the economy slip back into recession. Further afield, the eurozone economy is fragile, with several countries struggling with the burden of excessive debt, and contributing to a general sense of economic uncertainty across the continent.

Performance – a positive picture

At the West Brom, we have continued to concentrate our efforts on what we believe building societies do best – looking after the financial interests of members by offering prime residential mortgages and a range of savings and investments tailored to their individual needs. This is integral to our Back to Basics strategy, which has the safety and security of our members' money as its overarching principle.

Non-Core Activities

At the heart of our Back to Basics strategy is the desire to focus on the activities more traditionally associated with building societies. This strategy necessitates an orderly withdrawal from those activities into which the West Brom previously diversified – notably commercial lending, residential property letting, and second charge lending.

- The commercial property market was a very visible casualty of the credit crisis of 2007 and 2008. As with other lenders, the West Brom was compelled to absorb this impact, beginning with the decision to close the commercial lending book to new business in 2008. Since then, we have invested substantially in experienced and dedicated work-out teams. This has brought tangible results, demonstrated by a reduction of almost 30% to £1.2bn over the last three years in the Group's total exposure to commercial lending, of which £0.3bn is securitised to external investors. In addition, impairment charges against commercial loans have reduced to £6.2m from the previous year's £8.7m, demonstrating once again the expertise of our work-out teams in a sector which is likely to remain fragile for some time to come.
- As part of the Board's strategy to withdraw from non-core business, we intend to exit our residential letting operation – West Bromwich Homes – when market conditions are opportune. However, with the tentative nature of the property market at the moment and the resulting impact on sale prices, we do not envisage this happening in the near future. Indeed, a small fall in residential property prices over the past 12 months caused a decrease of £1.0m in the value of the property portfolio held by West Bromwich Homes. Thanks to more efficient management this division reported an increase to £0.6m in its underlying trading profit, compared with last year's £0.2m.
- With our second charge mortgage business – Insignia – it was decided, in 2009, we would not do any further lending. Since then, outstanding balances have been reduced from £56.1m to £39.6m as we continue to manage carefully the existing loans.

Core Activities

Savings – Best Buys and increased choice

With Bank Rate remaining low, the impact on our savers has been all too evident. We have sought to cushion the consequences of this challenging interest rate environment by offering a range of market-leading products.

This commitment to savers has seen the West Brom feature consistently in the Best Buy tables over the course of the year. We have also strengthened our savings portfolio, providing competitive products in ways that customers prefer to manage their accounts with us. That might be through a branch, directly by telephone or post, or online, which an increasing number of customers are choosing to do. The Society has broadened its online product range with new Best Buy issues of its WeBSave ISA and WeBSave Easy Access accounts. The growing popularity of this channel is evident in the rapid rise in accounts opened over the last 12 months, indicating how more and more customers are opting for the convenience and accessibility offered through an internet-based account.

At the same time, we have promoted the merits of regular saving by introducing Fixed Rate Regular Saver Accounts, both for adults and children. These accounts, which were launched as a direct result of feedback from our members, proved a great success.

The Society's ability to attract retail deposits which, in the 12 months to 31 March 2012, amounted to a gross inflow of some £2.4bn, meant we were more than able to maintain the proportion of our funding that comes directly from members' deposits. This also reduces reliance on wholesale funding, which has remained broadly unchanged. At 86.6% of total funding, these deposits have enabled us to comfortably fund residential mortgages at 1.31 times cover.

Lending – helping homeowners

The UK mortgage market has remained sluggish over the last year. While some observers have anticipated a welcome upturn in house purchase activity, others are more sceptical. In particular, they suggest growing unemployment and lower wages may act to prevent the mortgage market from growing significantly in the near term.

Against this backdrop, the low interest rate environment has protected many borrowers from falling into arrears. Reflecting this, levels of arrears in the core residential mortgage book remain relatively low. At 1.66% they continue below the average for the sector. However, where borrowers do encounter financial problems, we are prepared, wherever possible and in the interests of borrowers, to make arrangements that will help them to remain in their homes.

Liquidity and Capital – a focus on quality

We have again maintained a healthy liquidity position throughout the year. All deposit-taking firms must now hold minimum levels of higher quality liquid assets. Throughout the year, we have consistently exceeded these quality thresholds.

Quality is increasingly important when assessing the strength of the Group's capital base, especially in light of the economic storm which the financial services industry has had to withstand in recent years. The overall capital position is important but the more critical element is the Core Tier 1 ratio. We again strengthened this from 12.8% in 2010/11 to 13.3% this year, maintaining the West Brom's position of having one of the highest Core Tier 1 ratios among UK banks and building societies.

Costs – control remains key

Conscious of the responsibilities we have to our members, and mindful of the restrained economic mood, the Society ensures its costs are kept under constant review. Last year, there was a small increase of 2.6% in underlying management costs on the previous year but this can be attributed broadly to substantial and necessary investment in crucial strategic areas. In particular, the Society's extensive branch modernisation programme and the development and implementation of a mortgage processing system as we re-established ourselves in the mortgage market.

Initiatives – moving ahead with confidence

The West Brom's renewed emphasis on its strengths as a traditional regionally-based building society reflects our vision for the future.

This strategic perspective does not preclude innovation and development. After all, these are the hallmarks of a confident business, and have been demonstrated through our major branch modernisation programme and our re-establishment in the prime residential mortgage market. Plans for the Society's new head office are also progressing.

- **Branch Modernisation**
  We have delivered on our promise of refurbishing each of the Society's branches over an 18 month period. We agreed challenging objectives when setting out to upgrade the whole of our branch network, and the feedback from staff and customers alike suggests it has exceeded expectations. This modernisation gives the West Brom a vibrant profile that is more than a match for our competitors in high streets across the region. In a small number of locations, we feel the Society's branch would be better situated in a more prime site and a number of potential premises are presently under review.

- **Residential Mortgage Lending**
  The West Brom took another step forward in our focus on a building society's core priorities after we completed the necessary work to re-establish ourselves in the prime residential mortgage market. This involved the implementation of a new highly automated processing and support system. Starting from April this year, a range of mortgage products were made available to coincide with the launch of this new system.

- **New Head Office**
  This development has not progressed as swiftly as we had hoped when initially announcing our plans for a new head office. As we said at the time, while the existing building would require significant investment in the coming years, the present premises no longer meet the working requirements of the West Brom as a major financial services business within the region. Progress has been frustrating and negotiations with potential partners have been protracted. However, we are clear that we will only sign up for premises that are right for our business and are in the best long-term interests of our members and staff.

Delivering Value – putting the customer first

The motive behind these various developments, perhaps most apparent in the modernisation of our branches, is to give our members a quality of service and products that we are proud of. The West Brom's weekly presence in the Best Buy tables echoed this overriding aim of delivering value to our members who, as a result, were able to earn rates on average some 1.86% higher than Bank Rate.

Outstanding customer service is about finding the right product for the right customer at the right time. It is all to do with the specific and individual needs of our members, which is where the introduction of our Customer Relationship Management (CRM) system has come into its own in the past year. First launched in February 2011, we have refined CRM in the last year to make us better placed in gaining a clearer understanding of our customers' needs at their various life stages.

As with any financial services provider, we like to feel we are giving our members an excellent service, but this has to be based on more than anecdote and self-assessment. This is where the Customer Experience Tracker, which was implemented as a replacement for the previous customer satisfaction surveys, has begun to prove its worth. By interviewing a sizeable cross-section of members, this independent research initiative allows us to obtain a detailed portrait of what we are getting right as a provider. Conversely, it spotlights where things could be done better.

It is therefore gratifying to report that 9 out of 10 members would recommend the West Brom. What gave us particular pleasure from the research findings was to discover that these levels of customer satisfaction were evident across all channels – branch, direct and internet. Learning that we also scored higher than our competitors was a further cause for encouragement.

Our People – character and calibre

It is customary to thank our people for their dedication, energy and creativity – a tribute I am always delighted to give. At the West Brom, we often talk of embracing change – this is indeed one of the values we extol within the Society – but the individuals who work for the West Brom have shown an admirable willingness to do so, especially where such change is to the advantage of our members.

The many examples of our people willingly adapting to new things, be it the introduction of new customer feedback programmes, the new mortgage system or the implications of a head office move, all testify to the tremendous team spirit and calibre of staff we have at the West Brom. These values are also to be found in our Staff Recognition Scheme – Inspire – where people acknowledge the effort and enterprise of their colleagues, all adding to a shared sense of principle and purpose at the Society.

This collective commitment to quality on the part of our people was highlighted in our annual staff survey. It was especially pleasing to hear that our people have a real feeling of personal investment in the key values of the West Brom, including the importance of understanding and responding to the needs of customers.

Community – an active commitment

In referring to our people, it is only natural to praise the selfless way in which they have raised money for the Society's chosen charity, Acorns Children's Hospice. Their generous attitude was shown through a host of fundraising activities. What was especially heartening in the last year was the number of staff – some 80 in total – who gave up their time to do voluntary work for Acorns. In that context, we have a corporate volunteer policy, which encourages staff who wish to carry out voluntary work within their communities.

The involvement of our staff is an immensely heartening aspect in our support for the community. We also took part in a national initiative with the Teach First charity, including a lesson during Teach First Week at Sandwell Academy. Given our role as a leading financial organisation within the borough, this was another example of our engagement with the local community, and of our social responsibility towards developing the potential of young people.

On a corporate level, our successful affinity relationship with the Diocese of Lichfield via our Community Account continues to be a valuable component in our approach to community support. Under the auspices of the Mercian Community Trust, funds can be directed towards a range of organisations which support individuals in difficulty and hardship due to, for example, disability, dementia, social isolation, bereavement, educational disadvantage, or domestic violence.

We also want to make sure that our support for the communities we serve really does penetrate to a grassroots level. This was the inspiration behind our Community Counts campaign, which was launched at the end of the financial year. What makes this campaign particularly special is that it is channelled through our branches, enabling members to decide which local community groups and charities will benefit from the initiative.

Alongside this, the Society's affinity accounts support organisations geared towards particular health, social and sporting concerns, usually with the provision of opportunities for children and young people as a prominent focus. In this respect, we have a particularly good partnership through an affinity arrangement – the Red Balloon Account – with Birmingham Children's Hospital, which is dear to generations of people within the region and has earned a worldwide reputation for its treatment and care of children.

Member Engagement – a listening society

The West Brom takes its status as a mutual organisation very seriously. Mutuality means an organisation owned and run for the benefit of its members, which is why we have devoted particular effort to seeking out their opinions and views.

Fundamental to this is the Society's Annual General Meeting where members can express their views and ask questions of the Board, as well as vote on key issues including the election of the Society's Board of Directors. Our newly-launched Members' ViewPoint events allow us to gain a more in-depth understanding of the things that really matter to members. The Members' ViewPoint events are structured around a discussion forum where members can speak directly to me and other senior executives at the West Brom. So far, four such events have been held in Wolverhampton, West Bromwich, Oswestry and Newtown with more planned for other parts of the branch network in the coming year.

Outlook – playing to our strengths

It would be unwise to predict any immediate upturn in the overall economic situation, which appears set to stay unsettled both here in the UK and across much of Europe. This will have inevitable repercussions for the financial services sector, especially if Bank Rate remains at an all-time low as many expect it will. This means that our financial performance will continue to be constrained.

As described in this Review, our strengths are embodied in our Back to Basics strategy, which has produced a framework for stability and renewal that is clearly bearing fruit, as evidenced by our continued progress. The Society's performance over the year gives some grounds for optimism, which largely reflects several developments at the Society. The impressive modernisation of our branches and the re-establishment of the West Brom in the mortgage market are just two facets of particular note. However, I believe the continuing loyalty of our members, and the trust they place in us, remains the true source of the Society's strength.

Jonathan Westhoff
Chief Executive
31 May 2012

Board of Directors

John Ainley LLB (Hons), CCIPD
Non-Executive Director Age 55

John was appointed to the Board in May 2011. He is Group Human Resources and Corporate Responsibility Director with the global insurance provider, Aviva plc. He was previously Group Human Resources Director with WH Smith plc. John is also a Director of the European Centre for Executive Development and a member of the CBI's Climate Change Board. John chairs the Remuneration Committee and is a member of the Nominations Committee.

Mark Gibbard BSc, FCA, MCT
Group Finance Director Age 50

Mark was appointed to the Board in February 2011 as Group Finance Director. He has worked in the financial services sector for more than 20 years, including some seven years as Finance Director on the Board of Cheltenham & Gloucester plc. Prior to joining the West Brom, he was Divisional Director Risk Management at Nationwide Building Society. Mark chairs the Society's Assets & Liabilities Committee and is a member of the Group Risk Committee.

Claire Hafner MA, ACA
Non-Executive Director Age 52

Claire was appointed to the Board in September 2011. She is currently Chief Financial Officer for VocaLink, a specialist provider of transaction services to banks, their corporate customers and to the public sector. Prior to that, Claire was Finance Director for the international law firm, Eversheds, where she headed a team of finance professionals across the UK and overseas. Claire is a member of the Audit & Compliance and Remuneration Committees.

Andrew Jones BSc (Hons), FCIB, FCIS
Group Risk Director Age 55

Andrew was appointed to the Board as Group Risk Director in November 2010, having joined the Society in March 2009. With over 30 years' experience in the sector, latterly in risk and compliance, Andrew worked at Portman Building Society as Group Secretary and, more recently, as Group Risk Director at HML, the UK's largest third party mortgage administrator. Andrew is a member of the Group Risk and Assets & Liabilities Committees.

Mark Nicholls MA (Cantab), MBA
Chairman Age 63

Mark was appointed to the Board in January 2010 and has considerable knowledge of financial services, including at SG Warburg Group Plc and as Managing Director of the private equity group of the Royal Bank of Scotland. Mark also held non-executive directorships at Portman and Nationwide building societies. He is currently Chairman of Rathbone Brothers Plc and Protector of the National Lottery Fair Share Fund. Mark is Chairman of the Society's Nominations Committee and a member of the Remuneration Committee.

Mark Preston BA (Hons), ACIB
Non-Executive Director Age 52

Mark was appointed to the Board in May 2011. He is a Principal of the financial advisory firm Valerie Capital, which advises institutions on complex financial risks. Mark has been involved in financial markets for nearly 30 years, including the roles of Chief Executive Officer for the Products and Markets Division of Lloyds TSB and Co-Head of the Bank's Corporate Markets. He chairs the Development Council of Opportunity International UK, a charity active in microfinance activities in Africa. Mark is a member of the Group Risk Committee.

Martin Ritchley FCA, FCIB, Hon DBA (Coventry)
Deputy Chairman and Senior Independent Director Age 65

Martin was appointed to the Board in September 2009. He was formerly Chief Executive of Coventry Building Society and Chairman of the Building Societies Association. He is currently a Trustee of the ARC Addington Fund, a charity concerned with the sustainability of the farming community. Martin is a member of the Audit & Compliance, Remuneration, Nominations and Group Risk Committees.

Richard Sommers MA (Oxon), ACIB
Non-Executive Director Age 55

Richard was appointed to the Board in October 2009. Currently Treasurer of Lady Margaret Hall, a college in the University of Oxford, Richard has notable expertise in retail and commercial banking, having held senior positions with the Barclays Group, particularly as Chief Financial Officer with Barclaycard and Risk Director of Retail Financial Services. Richard is Chairman of the Society's Group Risk Committee and a member of the Audit & Compliance and Nominations Committees.

Colin Walklin BSc, FCA
Non-Executive Director Age 58

Colin was appointed to the Board in July 2011. He is presently Chief Operating Officer and Finance Director for Standard Life Investments with responsibility for operations, technology, change management and all aspects of the financial management of the business. A qualified chartered accountant by profession, he is a member of the Financial Reporting Review Panel. Colin chairs the Audit & Compliance Committee and is a member of the Group Risk Committee.

Jonathan Westhoff BA (Hons) Fin Servs, FCMA, CGMA, ACIB
Chief Executive Age 47

Jonathan was appointed to the Board in May 2009 and was Group Finance Director and Deputy Chief Executive before his appointment as Chief Executive in May 2011. He has almost 30 years' experience in the financial services sector, including some 17 years with Barclays Bank before moving into the mutual sector in 2000. Before joining the West Brom, he served as Finance Director at Portman and Newcastle building societies. Jonathan is a member of the Society's Group Risk and Assets & Liabilities Committees.

Financial Review

In the last financial year the West Brom made further progress in delivering against the primary goals of its Back to Basics strategy. The Board's key priority during a period of prolonged economic turbulence has been rebuilding its financial resilience through the strengthening and de-risking of its balance sheet whilst still providing members with excellence in products and service.

The emphasis on the core building society activities of retail savings, investments and prime residential lending has resulted in the Group once again being able to reduce substantially pre-tax losses and, more significantly, deliver a strong improvement in underlying performance. At the same time, the Board has remained focused on managing down the non-core assets, primarily commercial loans.

As a result of this clear strategy, the Group has been able to deliver strong results in the following key areas:

Managing risk – Reduction in impairment charges, down 38%, within a framework of tight risk management;

Maintaining net interest margin – The margin improved slightly to 0.47% (2010/11: 0.43%), reflecting the value delivered to savers during a period of ultra low interest rates;

Improving capital ratios – The de-risking of the balance sheet strengthened the Group's Core Tier 1 ratio which increased to 13.3% (2010/11: 12.8%);

Enhancing liquidity – Prudent levels of high quality liquidity balances maintained throughout the period. Improving the effectiveness of its liquidity management and continuing to have no exposure to non-UK sovereign debt;

Maintaining asset quality – Despite a contracting loan book, the percentage of residential loans greater than three months in arrears increased slightly to 1.84% (2010/11: 1.67%), 1.24% excluding second charge lending and acquired portfolios (2010/11: 1.08%); and

Tight cost control – As a result of continued investment in key strategic areas, including our branches, underlying management expenses increased by just 2.6% to £42.2m (2010/11: £41.1m).

Performance Overview

The Board monitors the results of the Group on both a statutory and underlying basis as shown in the table below:

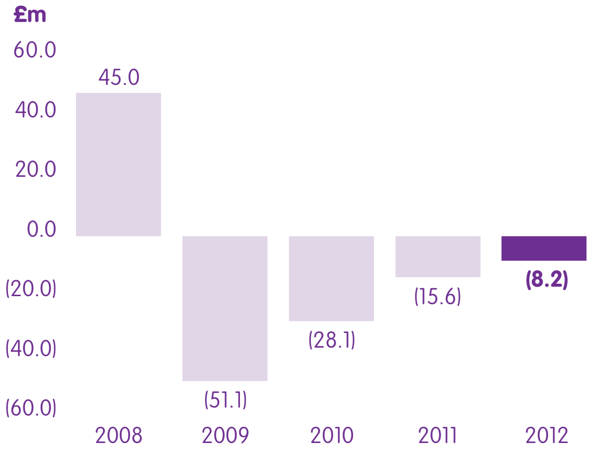
Key Performance Indicator: *The statutory and underlying results before tax are used together to monitor the performance of the Group. The statutory results before tax are the most commonly used measure of profitability. However, this includes a number of items that are not considered to reflect the ongoing profitability of the Group. These items are excluded from underlying results to present a core ongoing performance measure.*

Year to 31 March

	2012 £m	2011 £m
Reported loss before tax from continuing operations	**(9.5)**	(13.1)
Reported loss from discontinued operations	**-**	(0.7)
Total Group loss before tax	**(9.5)**	(13.8)
Net fair value movements	**3.0**	9.1
Gains from sale of financial instruments	**(5.2)**	(15.6)
FSCS levy charge	**2.9**	2.2
Restructuring costs	**0.6**	1.8
Discontinued operations	**-**	0.7
Underlying loss before tax on continuing operations	**(8.2)**	(15.6)

The graph below highlights the improving trend in the Group's underlying results over the last five years.

Underlying loss before tax on continuing operations



Total Group pre-tax loss for the year reduced by 31% to £9.5m and represented a considerable improvement on the previous year's figure of £13.8m (including loss on discontinued operations). More significant was the reduction in the underlying loss, falling by almost 50%, from £15.6m to £8.2m. This year's results continue the momentum of the previous three years and reflect the positive outcome of the Society's Back to Basics strategy.

Although the underlying result is relatively similar to the reported pre-tax figure there are a number of differences which are explained below:

- Net fair value movements. These reflect the impact of changes in the fair value of derivative financial instruments and the effect of Group hedge accounting decisions;
- Gains from sale of financial instruments. These gains arose through the ongoing management of the treasury portfolio and the requirement to prove the liquidity of the Group's liquid assets;
- Financial Services Compensation Scheme (FSCS) levy charge. This relates to the provision for the Society's share of the costs for the scheme year 2012/13 which have risen in line with the interest rate now charged by HM Treasury, which increases by 0.70% for the 2012/13 scheme year; and

- Restructuring costs. These costs reflect the one-off costs incurred on key strategic initiatives. The figures shown consist of the items disclosed on the face of the Income Statement as restructuring, a (release)/charge of a provision in respect of onerous leases and the accelerated write-off of the current head office.

Overview by Business Division

The Group is organised into three main business divisions:

- Retail – incorporating residential lending, savings, investments and protection;
- Commercial – primarily representing loans for commercial property investment; and
- Property – a portfolio of residential properties held to generate rental income.

Year to 31 March

	2012 £m	2011 £m
Retail	**4.3**	4.5
Commercial	**(13.6)**	(15.7)
Property	**(0.4)**	(1.7)
Intercompany adjustments	**0.2**	(0.2)
Loss before tax on continuing operations	**(9.5)**	(13.1)
Mortgage broking (discontinued operations)	**-**	(0.7)
Total Group loss before tax	**(9.5)**	(13.8)

Retail

The Retail division represents the core building society activity of residential lending primarily funded by retail savings. Results for the year reflect the continued difficult market conditions arising from general uncertainty in the economic climate. The consistently low interest rate environment, competition for retail funds, a stagnant housing market and limited money market activity have maintained interest margin compression. The focus within the Retail division has been to seek to safeguard the value provided to savings members by offering competitive interest rates throughout the period. When combined with the return from a high concentration of legacy mortgage assets linked to the low Bank Rate, margin has remained compressed.

The division's key goal of consolidation and strengthening of the asset base has been met, with loan balances reducing by 7.2% to £4.2bn. The majority of this reduction was in higher risk assets, supporting the drive to de-risk the balance sheet with the aim of safeguarding member deposits.

Performance in the residential credit management team has been maintained at an extremely high level with arrears continuing to track below the market average. Despite a contracting mortgage book, just 1.84% of accounts were in arrears by three months or more at the end of the year, up 0.17% from the previous year.

In line with the Back to Basics strategic plans, the Society has substantially completed investment in the modernisation of its branch network and the implementation of a new mortgage front-end system. This has established a favourable platform for the Society to re-establish its position in the residential mortgage market.

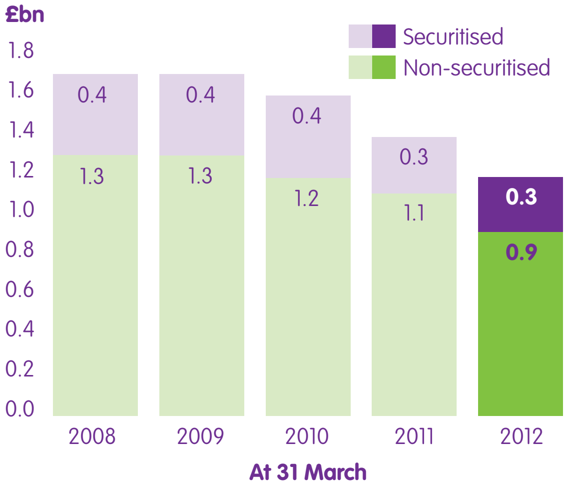
In a market characterised by weak and deteriorating economic conditions, non-interest income has been maintained at last year's levels. The primary drivers for this are a more buoyant property rental market and increasing investment advice activity offsetting reductions in insurance business arising from a contracting back book.

Commercial

The effects of the global financial crisis and economic downturn have been particularly evident in the commercial property sector. Business failures, particularly on the high street, have increased supply whilst investor demand has weakened. This has resulted in downward movement in commercial property values and falling rentals in several sectors.

In 2009, the Board made it clear that commercial lending did not fit with its Back to Basics strategy and invested heavily in work-out teams to manage an orderly exit. The targets set for reducing this exposure have been exceeded. The table below shows the reduction achieved in the Society's exposure to the commercial lending sector over the last five years. In 2011/12, the total exposure to commercial lending reduced by 12.0% to £1.2bn, of which £262.8m is securitised to external investors.

Commercial lending balances



Despite the deteriorating environment for commercial property in the latter part of the year, the charge against commercial loans reduced to £6.2m from £8.7m in 2010/11. This contributed to a substantial reduction in the loss of the division, down 13.4% to £13.6m.

Property

The Property division contributes to the results of the Group in two separate ways: trading profit from the rental of residential properties (West Bromwich Homes Limited) and changes in the fair value of these properties.

The underlying trading profit increased to £0.6m (2010/11: £0.2m) reflecting a buoyant property rental market and efficiency improvements in the management of the portfolio.

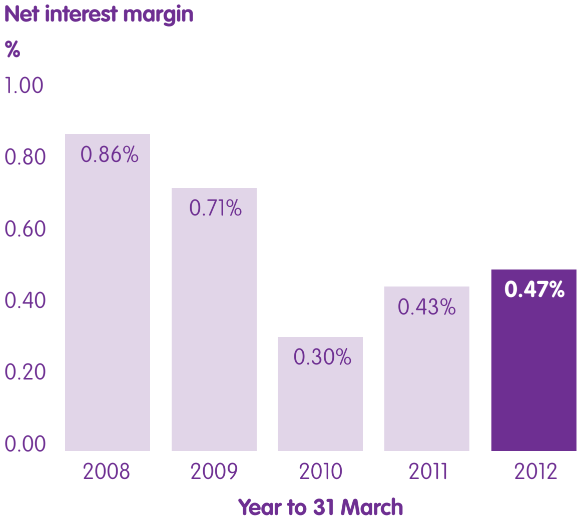
With the housing market remaining subdued there has been a general shift downward in residential property prices over the year. Reflecting this, the value of its investment property portfolio has reduced by 0.9% (£1.0m), resulting in a small overall loss for the division of £0.4m (2010/11: £1.7m).

Financial Performance – Group

Net Interest Margin

Key Performance Indicator: *The net interest margin is calculated as net interest income as a percentage of mean total assets.*

The key drivers of this measure are the level of return received from the assets held by the Group and the interest paid on its borrowings. As the primary constituents of this measure are member related, being mortgages to borrowers and savings from retail customers, the Board's goal is not to maximise this ratio but to maintain a measured level that balances continued security with long-term value for the members.



During 2011/12 the net interest margin improved slightly to 0.47% (2010/11: 0.43%) as a consequence of close management of the funding and liquidity base. When combined with our balance sheet contraction, this margin resulted in net interest earnings increasing slightly to £34.9m (2010/11: £34.4m).

At a time when the Bank Rate is at an all-time low, the return for savers in the UK continues to be negatively impacted. Despite the detrimental effect on margin we have supported our members by seeking to sustain the level of interest earned through offering high yielding, competitive products during the period. This is illustrated most notably by:

- 94% of our savings balances being paid interest in excess of Bank Rate;
- the average rate of interest paid to our ISA customers over the year being 2.73%; and
- the average rates earned by the Society's savers being maintained at 1.86% higher (2010/11: 1.86% higher) than Bank Rate.

A significant proportion of our residential mortgage borrowers have also benefited from the continuation of the low Bank Rate, with the average rate on loans during the financial year being 2.75% (2010/11: 2.80%).

Enhancements in liquidity management have remained a key focus of the Board, with the right balance between investing in high quality, highly liquid assets and achieving an acceptable return being paramount. Maintaining a significant proportion of liquidity in high quality assets (such as gilts, government guaranteed securities and treasury bills) has, however, resulted in the long-run return on these assets remaining depressed.

Intense competition for retail funds, low returns on high quality liquid assets and the high proportion of mortgage assets linked to Bank Rate means that the net interest margin will remain under pressure until Bank Rate increases.

Other Income

Key Performance Indicator: *Other income primarily represents income earned from the sale of non-margin related products. These include commission on the sale of insurance (in particular home and contents) and investment related products, together with fees earned on lending and property rental activity.*

Other income increased by 7% to £10.5m from £9.8m in 2010/11. Historically a high proportion of the non-interest income came from mortgage-related services (fees, protection and general insurance) with the remainder arising as commission from the sale of investment products.

A stagnant housing market has resulted in the Society focusing on investment advice and generating higher net returns from its rental property business (West Bromwich Homes Limited). This change in focus has begun to redress the deficit in insurance and protection sales arising from a contracting back book.

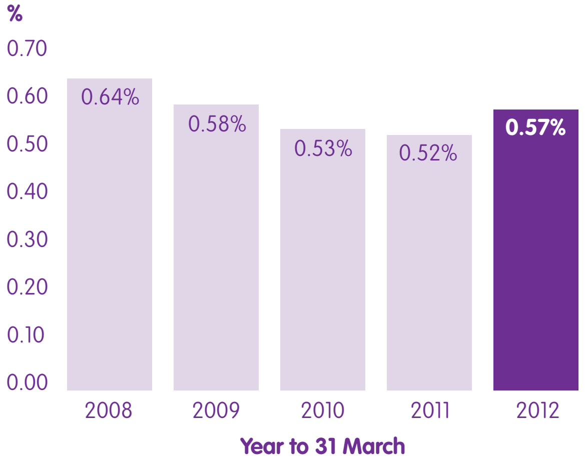
Management Expenses

Key Performance Indicator: *The management expenses ratio is a measure of cost efficiency, reflecting costs as a proportion of total assets managed. It is calculated as total management expenses (including depreciation and amortisation) as a percentage of mean total assets.*

The Board reviews this measure at both the statutory and underlying level. The underlying management expenses ratio is calculated by stripping out all costs that are considered to be one-off and not reflective of the ongoing costs of the Group.

The key drivers in this ratio are the underlying costs of the Group and its asset base.

Management expenses ratio



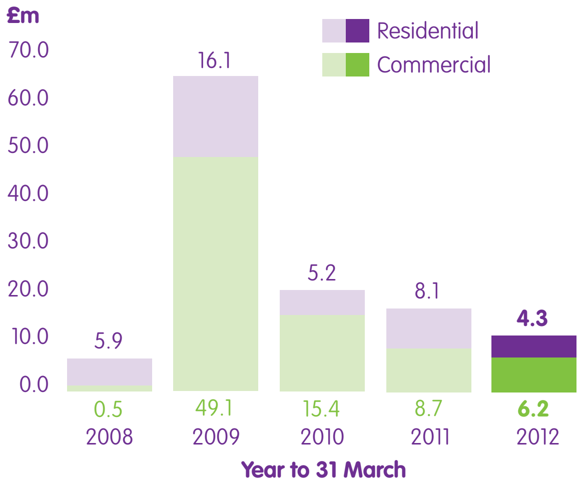
The management expenses ratio increased to 0.57% (2010/11: 0.52%) but, after excluding a number of one-off costs incurred during the year, the underlying cost ratio was 0.56% (2010/11: 0.52%). This reflected a managed reduction in Group assets and investment in strategic projects, including an extensive branch modernisation programme. With the prospect of investing further in our infrastructure, it is likely there will be future increases in costs.

Impairment Provisions on Loans and Advances

Key Performance Indicator: *The Board monitors the level of impairment provisions in absolute terms. The indicator measures the credit risk performance of the assets (e.g. the lower the credit performance of the assets, the higher the losses). Provisions include the losses incurred or those losses expected to be incurred (based upon events that have already happened) and are calculated both individually and collectively on groups of assets with the same credit characteristics.*

The key drivers of the quantum of losses incurred include unemployment, interest rates, movements in property prices, tenant defaults on commercial property and the availability of funding in the market.

Charge for impairment losses on loans and advances



The charge for impairment losses on loans and advances was down for the third year running, this time by 37.5% to £10.5m (2010/11: £16.8m).

Despite a difficult commercial property market, the commercial work-out teams are continuing to identify opportunities to minimise the losses incurred. This has resulted in the reduction in net new provisions.

Impairment charges against commercial loans have, once again, reduced to £6.2m (2010/11: £8.7m) reflecting the focus on managing away higher risk loans. However, the Group is still making prudent provisions where emerging difficulties are identified.

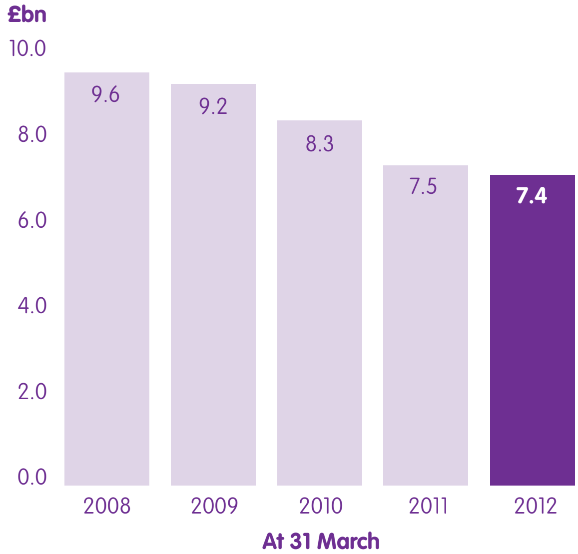
At the end of the period, the Group had £67.4m (2010/11: £60.9m) set aside for potential losses from exposures to the commercial lending portfolio, 5.5% of the current loan book (2010/11: 4.4%). In minimising the losses incurred there may be circumstances that require control of the underlying security to be taken. At the end of the year the Group managed £288.1m (2010/11: £303.8m) of the commercial loan book through a Law of Property Act Receiver (LPAR).

The underlying quality of our residential lending remains strong in both prime residential and buy-to-let exposures reflected in the reduction in new residential provision requirements to £4.3m (2010/11: £8.1m). The Board continues to take a prudent view when determining the appropriate level of provisions.

Financial Position

The Board's strategic goals have not changed over the last three years: a concerted drive to rebuild financial performance whilst safeguarding the deposits of members. In the face of difficult economic and financial market conditions, the Board has focused on strengthening the Group's capital position and reducing the legacy risks inherent in its balance sheet. As a result, total assets have reduced further by 1.7% to £7.4bn (8.4% to £6.9bn when excluding the high level of liquidity held to repay certain government guaranteed funding in early April 2012).

Group total assets



Loans and Advances to Customers

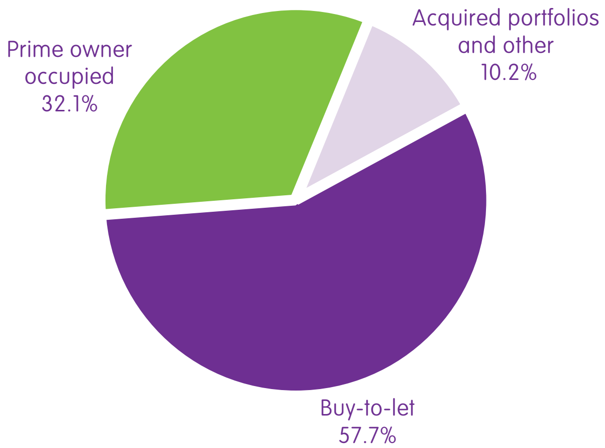
Loans to customers principally comprise residential lending through the Society, West Bromwich Mortgage Company Limited and Insignia Finance Limited and, in the case of commercial property lending, through West Bromwich Commercial Limited.

The Board set itself testing targets for the year to re-balance the proportion of its loan book represented by residential lending. We exceeded our run-off targets and reduced the inherent risk in the balance sheet.

Residential

Residential mortgages represent prime advances, including buy-to-let, made through the Society's branches and intermediary channels. Also included are mortgage portfolios acquired through the Society's subsidiary company, West Bromwich Mortgage Company Limited, although no such portfolios have been acquired since 2005. At the end of the period, the residential mortgage portfolio was divided 32.1% prime owner occupied, 57.7% buy-to-let and only 10.2% acquired portfolios and other.

Analysis by lending type – 2012



The table below shows that the Group has a relatively diverse geographic spread of residential loans with no individual region exceeding 20% of the total residential lending book.

At 31 March Residential loans analysis by region

	2012 £m	2011 £m
East Anglia	**101.0**	106.2
East Midlands	**363.1**	385.2
Greater London	**719.2**	773.5
Northern Ireland	**7.5**	8.2
North	**123.9**	132.5
North West	**426.2**	451.3
Scotland	**169.1**	179.2
South East	**736.7**	791.1
South West	**326.4**	351.0
Wales	**216.8**	234.7
West Midlands	**787.9**	880.5
Yorkshire	**255.9**	272.2
Total	**4,233.7**	4,565.6

Key Performance Indicator: *The Board reviews the credit performance of the Group's loans and receivables using a variety of measures that report on different characteristics and behaviours of both the loan and the customer. This is to ensure that all indicators of potential problems are identified as early as possible.*

The principal industry standard and Board measure is the number of cases where the borrower has missed more than three monthly payments.

With a contracting book, the percentage arrears figures can increase without any significant increase in the absolute number of accounts in arrears.

At 31 March 2012 Group arrears

	Total Balances £m	3 months+ %
Prime	**1,360.4**	**1.54**
Buy-to-let	**2,443.4**	**0.97**
Acquired portfolios and other	**390.3**	**6.17**
Core residential	**4,194.1**	**1.66**
Second charge lending	**39.6**	**6.43**
Total	**4,233.7**	**1.84**

At 31 March 2011 Group arrears

	Total Balances £m	3 months+ %
Prime	1,566.1	1.19
Buy-to-let	2,524.9	0.93
Acquired portfolios and other	429.8	5.26
Core residential	4,520.8	1.43
Second charge lending	44.8	7.72
Total	4,565.6	1.67

The performance of the Group's residential arrears is satisfactory given the current economic upheaval. At 1.84% (2010/11: 1.67%), this remains below the sector average and the increase is in line with expectations given the contracting loan book. When excluding the impact of the closed, non-core second charge and acquired portfolios, the three months or more arrears are significantly lower at 1.24% (2010/11: 1.08%). Encouragingly, the level of second charge loans that are three months or more in arrears has reduced to 6.43% (2010/11: 7.72%).

The Society actively seeks to support those borrowers who are experiencing genuine financial hardship, so enabling them to remain in their homes as long as this is believed to be in their best interests (e.g. where the loss to the customer is not increased over time). More specifically, the Society has sought to follow the recently issued Financial Services Authority (FSA) guidance on forbearance measures.

Forbearance solutions take a number of forms depending on individual customer circumstances. Short-term solutions focus on temporary reductions to contractual payments. For customers with longer term financial difficulties, term extensions may be offered, which may also include interest rate concessions. For more detail on the Group's approach to forbearance measures see note 31 to the Accounts.

Commercial

The managed run-off of the historic commercial loan book has been one of the main priorities of the Board throughout the period. The success of the work-out teams has exceeded expectations, accelerating the balance sheet de-risking programme. This focus has not wavered despite the detrimental impact on margin through the redemption of certain higher yielding but higher risk assets.

Balances secured on commercial property assets are down by 9.9% to £1,152.2m (2010/11: £1,278.8m). Of this, £262.8m is securitised (2010/11: £288.0m). Loans fully secured on residential property portfolios managed by Commercial division reduced to £75.5m (2010/11: £109.3m).

The sector split of the commercial lending portfolio is as follows:

At 31 March Loans fully secured on commercial property

	2012 £m	2011 £m
Healthcare and leisure	**228.7**	249.5
Industrial and warehouse	**61.3**	73.2
Office	**204.4**	221.6
Retail	**560.0**	659.2
Other	**6.8**	9.8
Fair value adjustments	**91.0**	65.5
Total	**1,152.2**	1,278.8

With the economy remaining vulnerable and returning to recession, rising business failures and continued uncertainty over the eurozone, the managed and cautious run-down of the commercial lending portfolio remains a priority.

Funding

Intense competition for retail savers and restricted access to the wholesale markets have presented an extremely challenging funding environment. The Society's response has been very positive, ensuring that a secure and resilient funding base is maintained.

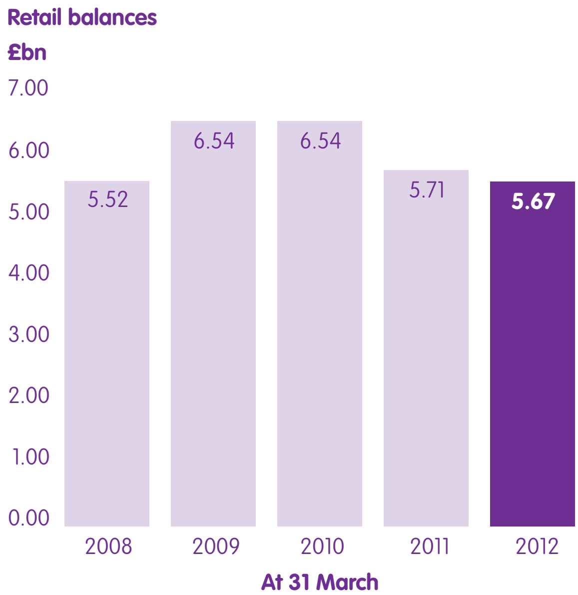
Key Performance Indicator: *The key funding measure that the Board uses to assess the risk in its funding base is the funding ratio. The funding ratio measures the proportion of total Society shares and borrowings not in the form of retail savings products. It assesses the Society's relative exposure to the wholesale funding markets and it is the Board's aim to maintain this ratio at a stable low level.*

One of the main tenets of the Back to Basics strategy is to return to core building society principles. A key way that the Board measures the success of this strategy is by reviewing the proportion of total residential mortgage assets that are funded by retail deposits.

Retail

Throughout the period the Society has maintained a keen focus on servicing its retail customers with the aim of keeping the proportion of funding that comes from retail member deposits at strong levels, 86.6% as at 31 March 2012 (2010/11: 85.8%).

As a consequence of the managed balance sheet contraction, total retail deposits reduced to £5.67bn (2010/11: £5.71bn). Residential mortgage assets remain comfortably funded 1.31 times (2010/11: 1.22 times) by these deposits.



Retail savings have been scarce throughout the period with competition intensifying as a result of a number of different factors; an uncertain wholesale funding market, a troubled eurozone and HM Treasury raising high-rate tax-free savings through National Savings and Investments. All have contributed to the reduction in the retail funding available to the building society sector.

To tackle this increased demand the Society has ensured that its members have been provided with an attractive range of diverse products that offer savers a consistent and valuable return on their assets. This focus on service and value has been a primary reason behind the Society's success in attracting new member balances.

Non-Retail

The economic upheaval and growing anxieties over the stability of European sovereign debt have prolonged the difficulties in raising funds in the wholesale credit markets.

The Society has looked to maintain its reliance on wholesale funding at a relatively modest level with its non-retail funding ratio falling to 13.4% (2010/11: 14.2%).

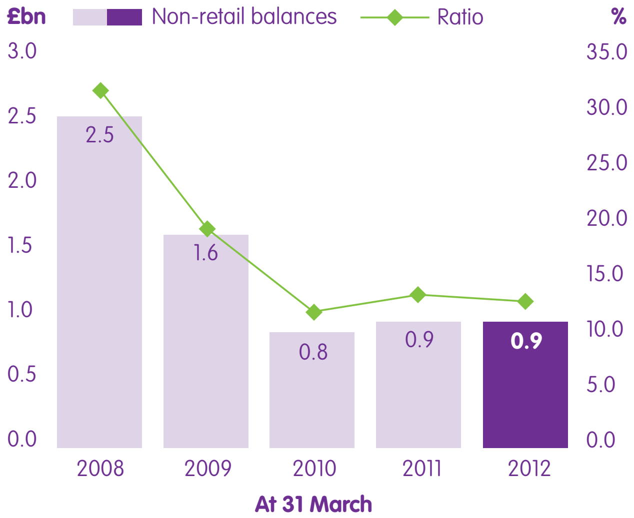
The Board considers the unsecured wholesale markets to be a secondary source of funding compared with retail deposits. However, a balanced and diverse funding base aids in mitigating the inherent funding risk arising from an over reliance on a single market. Since the year end, reflecting this strategic aim, the Society successfully completed a £250m residential securitisation transaction.

The table below analyses the change in the make-up of the Society's non-retail funding:

At 31 March Non-retail funding sources

	2012 £m	2011 £m
Repo and other secured agreements	**695.0**	722.6
Deposits	**178.3**	195.9
Certificates of deposit	**4.0**	9.0
Medium term notes	**3.0**	16.2
Total	**880.3**	943.7

Non-retail balances and ratio



Liquidity

Key Performance Indicator: *The Group's liquidity position is monitored in a number of different ways, including reviewing the components of our funding and liquidity portfolios, testing liquidity by selling into the market and monitoring the impact under a number of stressed scenarios. However, the key measures that the Board uses to monitor its liquidity position are:*

- *The liquidity ratio - liquid assets as a proportion of shares and borrowings; and*
- *The total level of 'buffer liquidity' versus our regulatory requirement (set by the FSA). Eligible buffer liquidity constitutes gilts, treasury bills, supranational bonds and reserves with the Bank of England. As such it represents the most liquid and secure form of holding.*

The Society has continued to enhance the monitoring and control of its portfolio of liquid assets to ensure that, at all points throughout the year, liquidity is maintained at levels comfortably in excess of regulatory requirements. These levels are determined by the composition of our funding base and therefore all funding decisions are reviewed in light of their impact on liquidity.

The quality of this liquidity has also been strengthened as shown by the increase in the level of the treasury investment assets that were rated single A or better, 100.0% at 31 March 2012 (2010/11: 95.9%). In particular, the Society increased the proportion of its investments held in the high quality buffer liquidity to 62.4% (2010/11: 47.0%). In line with the low risk nature of these investments, the rate of interest earned from these assets is lower, resulting in further downward pressure on net interest margin.

An analysis of the Group's liquidity position is shown below.

At 31 March 2012 Liquidity portfolio

	£m	%
Buffer liquidity		
- Bank of England Reserve	**760.9**	**42.0**
- Supranationals	**350.3**	**19.3**
- Gilts	**20.5**	**1.1**
Total buffer liquidity	**1,131.7**	**62.4**
Other securities – rated single A or better	**553.4**	**30.6**
Subsidiary/other liquidity	**126.1**	**7.0**
Total liquidity	**1,811.2**	**100.0**

At 31 March 2011 Liquidity portfolio

	£m	%
Buffer liquidity		
- Bank of England Reserve	377.6	26.5
- Treasury bills	149.6	10.5
- Gilts	142.5	10.0
Total buffer liquidity	669.7	47.0
Other securities – rated single A or better	598.1	41.8
Other securities – rated less than single A	58.2	4.0
Subsidiary/other liquidity	102.7	7.2
Total liquidity	1,428.7	100.0

Liquid assets and ratio

The Society's liquidity ratio increased to 27.6% (2010/11: 21.5%), partly as a result of the build up of cash to repay certain government guaranteed funding during early April 2012.

A cautious and prudent approach to liquidity management is required in light of heightened concerns over the ability of certain European countries to service their debt. To facilitate this, a rigorous credit assessment process is employed which considers the risks of all assets before they are acquired, as well as throughout the period they are held. The Society has maintained a very high quality portfolio of assets and has no direct exposure to the emerging markets, Greece, Ireland, Italy, Portugal, Spain or Belgium or to any mortgage market other than the UK, and no impairment charges were required against any treasury investment assets in the year.

Capital Structure

Key Performance Indicator: *Capital is held as the ultimate protection for depositors. The Board sets the internal level of capital with the aim of ensuring capital levels are always above minimum regulatory requirements.*

The primary indicators used to monitor capital are:

- *Core Tier 1 ratio – Core Tier 1 capital comprises historic profits generated over time plus Profit participating deferred shares, a long term secure form of funding, less a number of regulatory adjustments made for the purposes of capital adequacy. Core Tier 1 capital is the strongest form of capital for any financial institution. This capital is compared to the risk weighted assets of the financial institution. The risk weighted assets are calculated by asset class under Basel II using the Standardised approach. This allocates a weighting to each asset class based upon an estimate of the credit, market and other risks associated with the asset and counterparty. The higher this ratio the more capital held relative to its risk weighted assets; and*
- *Solvency ratio – this is the total capital as a proportion of risk weighted assets.*

The following table shows the composition of regulatory capital and the capital ratios of the Group for the years ended 31 March 2012 and 31 March 2011 respectively. As at 31 March 2012, the solvency ratio strengthened to 16.2% (2010/11: 15.6%) driven by the reduction in risk weighted assets.

At 31 March

	2012 £m	2011 £m
Regulatory capital		
Tier 1		
General reserves	**241.1**	251.3
Permanent interest bearing shares (note 1)	**74.9**	74.9
Profit participating deferred shares	**175.0**	177.3
Intangible assets (note 2)	**(7.5)**	(9.0)
Deductions from Tier 1 capital (note 3)	**(3.5)**	(4.3)
	480.0	490.2
Tier 2		
Revaluation reserve	**3.7**	3.7
Collective impairment allowance	**24.1**	18.9
Contingency against collective provision add back (note 4)	**(10.2)**	(4.4)
Deductions from Tier 2 capital (note 3)	**(3.5)**	(4.3)
	14.1	13.9
Total capital	**494.1**	504.1
Risk weighted assets – Pillar 1		
Retail mortgages	**1,676.3**	1,817.4
Commercial loans	**957.6**	1,037.1
Treasury	**151.1**	106.1
Other	**157.4**	155.8
Market risk	**12.9**	3.6
Operational risk	**94.8**	120.6
	3,050.1	3,240.6
Key capital ratios		
Core Tier 1 ratio (%) (note 5)	**13.3**	12.8
Tier 1 ratio (%) (note 5)	**15.7**	15.1
Solvency ratio (%) (note 5)	**16.2**	15.6

Notes

1 Permanent interest bearing shares include any adjustments for unamortised premiums and discounts.

2 Intangible assets do not qualify as capital for regulatory purposes.

3 Certain deductions from capital are required to be allocated, 50% to Tier 1 and 50% to Tier 2 capital. Other deductions are Tier specific.

4 Deduction from the collective provision add back reflecting the proportion of the provision that is disallowable for capital purposes.

5 Calculated as relevant capital divided by risk weighted assets. Core Tier 1 represents Tier 1 capital excluding permanent interest bearing shares.

The Board remains dedicated to preserving the capital strength of the Group. The weaknesses uncovered by the financial crisis - in particular risk concentration – are being fixed but this takes time. As at 31 March 2012, the Group's Core Tier 1 capital ratio increased from 12.8% to 13.3% and its Tier 1 ratio from 15.1% to 15.7%. We believe this is one of the highest Core Tier 1 ratios amongst UK banks and building societies.

The de-risking process has brought forward some losses and this could continue for some time yet. In light of these losses, the prime driver for the increase in capital ratios is the managed reduction of balance sheet exposures, especially with respect to high risk assets, with risk weighted assets down by 5.9% to £3.1bn.

Member Engagement

At the West Brom we constantly look at how we can improve our products and services. One of the ways we do this is through customer research, which helps us to understand our members' expectations. In addition to financial and performance indicators, the Board monitors the feedback from our customer research to understand how we are meeting our members' needs and what more we can do to deliver high quality products and services.

Key Performance Indicator: *The Board reviews a range of customer research programmes, with the key ones being:*

- *Mystery Shopper – conducted across our branches and Contact Centre Telephony teams. Mystery Shoppers record their experience on a scorecard against the standards that we expect our customers to receive;*
- *Customer Experience Tracker – a telephone satisfaction survey where we contact a variety of members ranging from those who have recently visited a branch to make a transaction or to see a Financial Planning Manager through to those who have opened an account through either our Direct or WeBSave channels;*
- *Postal and email surveys – where we send our members short surveys by mail/email on a range of subjects e.g. a recent product purchase; and*
- *Members' ViewPoint – these events provide face-to-face feedback from our members on our products, services and our work in the community. Four of these events have been held during 2011/12 in Wolverhampton, West Bromwich, Newtown and Oswestry.*

Our Mystery Shopper programme is an ongoing monthly measure of how our branches and Contact Centre are performing against agreed standards. These standards have been written to ensure we deliver the high level of service that our members expect to receive.

Our Customer Experience Tracker, which measures satisfaction and importance across a representative sample of our member base, has continued to score well throughout 2011/12. Some of the highlights from the latest survey are:

- An average satisfaction score of 4.4 (out of 5) across the channels measured.
- 76% of members surveyed stated that we exceeded their expectations and went the 'extra mile'.
- 52% of our members would definitely recommend us with another 37% likely to recommend us.

The Board also reviews a number of measures in relation to customer complaints. One key indicator is the Financial Ombudsman Service (FOS) 'complaint overturn' rates. This shows the percentage of instances where the FOS has overturned, in the customer's favour, outcomes where individual firms originally found against the customer.

The latest table, published in Q1 2012 and representing the period July 2011 to December 2011, quoted the performance of approximately 50 of the largest qualifying firms. Due to the small amount of complaints that actually reach the Ombudsman from the West Brom our results were not published. In fact, our performance for that period was around 90% resolved in favour of the Society; considerably better than our comparator Groups. The Board considers this to be an excellent performance.

Risk Management

Overview

Effective management of risks and opportunities is essential to achieving the Society's corporate objectives. Management of the business and the delivery of the Board's strategy involves the potential exposure to a number of risks. The Board aims to manage effectively all the risks that arise from its activities and believes that its approach to risk management reflects an understanding of actual and potential risk exposures, the quantification of the impact of such exposures and the development and implementation of controls that manage exposures within the Board's agreed risk appetite.

Risk Management Framework

At the most fundamental level, the Society's activities are governed by its constitution, principles and values. The Directors have also agreed a set of statements which describe the Board's risk appetite in terms of a number of key areas, including profitability, capital, liquidity, arrears, customer service, people and regulatory compliance (the Society's Risk Appetite Statements).

These Risk Appetite Statements drive corporate planning activity and capital and liquidity planning as well as providing the basis for key risk measures.

The final element of the framework is the formal structure for managing risk across the Group. This is based on the '3 lines of defence' model which is illustrated below.

	Activity	Responsibility	Governance
1st	Business Operation	Line Management	Line Management Oversight
2nd	Policy, Controls, Measure, Monitor	Control Functions	Management and Board Committees
3rd	Assurance	Internal Audit	Audit & Compliance Committee

Governance Structure

Risk governance is provided by a structure consisting of five key risk management committees:

- **Group Risk Committee (GRC)** – This committee is chaired by a Non-Executive Director and is responsible for the oversight and management of the key strategic risks identified by the Board.
- **Assets & Liabilities Committee (ALCo)** – This committee is chaired by the Group Finance Director and is responsible for the assessment of exposure to Treasury counterparty credit, market, liquidity and interest rate risk.
- **Residential Credit Committee (RCC)** – This committee is chaired by the Group Risk Director and is responsible for monitoring exposure to credit risks in the Group's retail loan books.
- **Commercial Lending Risk Committee (CLRC)** – This committee is chaired by the Group Risk Director and is responsible for monitoring exposure to credit risks in the Group's commercial loan book.
- **Operational Risk Committee (ORC)** – This committee is chaired by the Group Risk Director and is responsible for the oversight of the management of operational risks arising from the Group's business activities.

Independent assurance is provided by the Internal Audit function which has a direct reporting line into the Audit & Compliance Committee (ACC).

Risk Categories

In order to identify the key risk categories most relevant to the Group, the Board considered an overall risk universe relating to firms in the financial services sector. This was distilled into nine material risk categories as shown below.

Business risk
The risk to the Group arising from changes in its business, including the risk that it may not be able to carry out its business plan and/or its desired strategy. This may be due to changes in the competitive environment or events which damage the operating activities of the Group (e.g. competitor activity or changes in regulation and/or taxation).

Credit risk
The risk that material losses may arise as a result of borrowers, debtors or market counterparties failing to meet their obligations to repay.

Concentration risk
The risk of losses arising due to the concentration of exposures which have a significant positive correlation (e.g. in terms of geography, industry sector, major counterparty etc), or are influenced by common external factors.

Liquidity risk
The risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure such resources only at uneconomic cost.

Market risk: interest rate risk
The risk of movements in interest rates having an adverse impact upon planned future cash flows.

Market risk: other
The risk of losses or decrease in value of the assets on the Group balance sheet as a result of adverse market movements.

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

Pension liability risk
The risk that there will be a shortfall between the value of the pension fund assets and the guaranteed liability to its employees under the defined benefit pension scheme. This may result from a number of sources including market risk, equity risk and/or mortality rates.

Residential property holding risk
The risk of losses in the value of the Group's residential property portfolio following a general decrease in property prices.

For each of these categories, key external and/or legacy related risks have been identified and assessed for impact and likelihood. This provides a 'top down' view of the main risks facing the Group. In addition, key processes have been identified and the main risks to those processes identified and assessed, giving a 'bottom up' view. The Group Risk Committee meets quarterly, as a minimum, to review the combined view of these risks. During the financial year the Committee met on eight occasions.

For each risk and key process, the mitigating controls have been identified and the effectiveness of the controls is monitored by line management, with control functions providing a second line of defence and Internal Audit, through an approved assurance programme, providing the third line.

Business Conditions and the Economic Environment

The environment in 2011 was dominated by the eurozone crisis and by reduced growth expectations for the Organisation for Economic Co-operation and Development (OECD) economies. In the UK, the Bank of England maintained interest rates at an historically low level and expanded the policy of quantitative easing to inject money into the economy. 2012 may witness the unfolding of the eurozone crisis and carries with it the risk of a return to recession in that economic area and beyond.

The West Brom is exclusively focused in the UK and therefore, the general UK macro-economic environment is key to our success. The external factors that impact the Group include:

- Interest rates (Bank Rate and LIBOR);
- Inflation;
- Unemployment; and
- The housing and commercial property markets.

Day-to-Day Risk Management

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 and Assets & Liabilities Management – the 'second line of defence'. These functions develop and review policies, monitor and support compliance with those policies, and support the business functions to manage risk.

Governance and oversight is provided through a number of management and executive committees as detailed on page 17.

Key Risks

Credit risk

Credit risk refers to the risk that a customer or counterparty to a contract will not be able to meet their obligations as they fall due. For the purposes of the Group, this normally means the risk that a borrower will not repay their mortgage loan, or that a financial institution will not repay funds invested by the Society in that institution.

During the year, the Group engaged in only minimal lending activity, principally to existing borrowers. All such lending is in accordance with the Group's credit policy, which is consistent with the risk appetite established by the Board. Currently, no new non-conforming property lending (i.e. commercial, buy-to-let, sub-prime or self-certified) is being undertaken.

The Group's exposure to residential and commercial credit risk is managed by a specialist Credit Risk department with a reporting line into the Group Risk Director. The Credit Risk department is responsible for setting the credit risk management framework and associated limits. It also provides regular reports to the Group Risk Committee, which is chaired by a Non-Executive Director and includes the Chief Executive, Group Finance Director, Group Risk Director and three other Non-Executive Directors as members.

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.

Throughout the last financial year, a conservative approach to liquidity management has been maintained, investing for short periods with selected financial institutions. The Society has also moved towards a position of holding a significant proportion of liquidity in UK Government guaranteed and supranational financial institution assets, which are considered to be both highly liquid and secure. Treasury operates a strict control framework and exposures are monitored on a daily basis.

Market risk

Market risk refers to the possible changes in the value of, or income arising from the Group's assets and liabilities as a result of changes in interest/exchange rates or equities. Market risk exposures are managed through the Group Treasury department which is responsible for managing exposure to all aspects of market risk within parameters set by the Board.

ALCo reviews the Treasury 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 Board. The principal 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, Group Treasury uses natural balance sheet hedging (e.g. matching 2 year fixed rate mortgages with 2 year fixed rate saving bonds) and derivative instruments. The use of derivatives is only permitted in accordance with the provisions of the Building Societies Act 1986, which place restrictions on their use.

The maximum level of interest rate risk is governed by the Board approved Treasury Policy in line with the Board's risk appetite.

In line with regulatory requirements and best practice, the impact of a parallel shift in interest rates in both directions, subject to a floor at 0%, is considered. However, in the day-to-day management, the impact of alternate non-parallel scenarios upon income and market value is also considered.

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

The Society's main exposure to equities is through the defined benefit pension scheme. While the Society does attract funds through index-linked savings products, all exposures to equity indices are fully hedged. There is no exposure to foreign exchange rates.

Liquidity risk

The Society's principal purpose is to make loans secured by way of mortgage on residential property. It funds these loans substantially from short term deposits provided by its saving members. The contractual maturity of the mortgages is typically up to 25 years although loans are often repaid early due to borrowers moving house or remortgaging. On average, loans made by the Society last for seven years.

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.

This difference in the nature of borrowers' and savers' relationships causes a structural mismatch between the speed 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 liquid resources to meet the normal day-to-day operations of the business and, in addition, maintains a buffer of high quality assets which can be converted quickly into cash to cover outflows in severely 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 annual review of its liquidity adequacy assessment processes (Individual Liquidity Adequacy Assessment or ILAA) and submits this to the FSA for supervisory review. The ILAA specifies the daily processes that the Group will use to determine the amount of liquidity required to cover its potential cash flow needs under a range of stresses including three FSA standard scenarios 'name-specific', 'market-wide' and 'combined'.

The supervisory review also informs the FSA's view of the amount of 'buffer' or highest quality liquid assets that the Group 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). It issues Individual Liquidity Guidance (ILG) on these and other liquidity risk matters which the Group must meet. Group Treasury maintains liquid resources at the greater of the ILG measures or the Group's own assessment of liquidity adequacy.

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

- The Board has delegated authority for the governance of Liquidity Risk Management to the Assets & Liabilities Committee (ALCo) which meets monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC) which 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;
- Group Treasury is responsible for day-to-day management and maintenance of adequate liquid resources under delegated authority from ALCo; and
- The Group Risk Committee monitors independently the overall liquidity adequacy process, including the activities of ALCo, LMC, and Treasury.

The Society is responsible for the liquidity and cash flow requirements of wholly owned subsidiaries.

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 co-ordinates regular reviews with the function managers and collates the output for review by executive management, the Operational Risk Committee and the Group Risk Committee.

The Risk Division also provides independent input and challenge to the business functions, both through the regular review of operational risks and day-to-day business initiatives.

Principal risks and uncertainties

Set out in the table below are the key external and legacy risks which have been identified by the Group Risk Committee.

Risk Category	External/Legacy Risk	Controls and Activity
Business risk	Continuation of ultra low interest rates leading to continuing strain on margins or adverse changes to the operating environment: • Demand for retail funds. • House price movements. • Double-dip recession.	Business plans continue to model the impact on a range of scenarios. Income projections are reviewed regularly to identify mitigation actions.
Credit risk	Higher unemployment and an increase in Bank Rate (leading to increased arrears and losses).	The Group's provisioning and stress testing models assume a range of unemployment levels. Should an increase occur, the Group would expand its credit management resource.
	Reduction in property prices (leading to a higher incidence of voluntary possessions).	The Group is committed to work with its borrowers to avoid possession wherever possible. In the event that possessions were to increase the Group has provided prudently and regularly reviews its impairment provisions.
	Double-dip recession (leading to further tenant failures).	The Group has a well resourced and highly experienced team dealing with commercial property mortgages and, as has been the case throughout 2011/12, works with borrowers to lessen the impact. The Board has set aside impairment provisions to limit the impact of losses.
Concentration risk	Over-exposure to non-core lending (leading to losses if those exposures are affected disproportionately).	Known exposure to commercial mortgages is the subject of continuing intensive attention. The exposure to buy-to-let mortgages is understood, but, currently, these mortgages are performing well. If this were to change the Group would increase the resource to handle the increased activity.

Risk Category	External/Legacy Risk	Controls and Activity
Liquidity risk	Intensification of competition for retail funding.	The Society continues to attract new retail savers despite intense competition. Balance sheet management ensures this risk is minimised.
Interest rate risk	Residential tracker mortgage assets whose rate is linked to Bank Rate with no floor.	All new residential tracker mortgages subject to a minimum rate.
Operational risk	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.
Pension liability risk	Increased longevity, poor investment returns (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 Trustees take extensive advice (actuarial, investment etc.) to minimise the impact of the risks identified.
Residential property holding risk	House price falls (leading to a reduction in book value of the residential letting portfolio).	The intention is to gradually dispose of the properties over time.

Capital Management

The Group conducts an annual Internal Capital Adequacy Assessment Process (ICAAP) covering all risks. This is used to assess the Group'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 into an Internal Capital Assessment (ICA) that is approved by the Board. The ICA 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 multiple, stressed scenarios. The ICA is used by the FSA to set the Group's capital requirements as Individual Capital Guidance (ICG).

Group capital requirements are reviewed on a monthly basis and the results of this monitoring are reported to the Group Capital Committee, Group Risk Committee and the Board.

The detailed breakdown of the Group's capital position can be found on page 15.

Mark Gibbard
Group Finance Director
31 May 2012

Directors' Report

The Directors are pleased to present their Annual Report, together with the audited Accounts, for the financial year ended 31 March 2012.

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 diverse range of personal financial services, offering competitive pricing and excellent service.

Business Review

The Group's business and future plans are referred to in the Chairman's Statement on page 2, the Chief Executive's Review on pages 3 to 6 and the Business Review on pages 8 to 20.

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 Business Review on pages 8 to 20.

Profit and Capital

The Group's loss before tax (on continuing operations) amounted to £9.5m (2010/11: £13.1m). The total loss after tax transferred to general reserves was £9.2m (2010/11: £10.4m).

The total Group reserves at 31 March 2012 were £246.0m (2010/11: £252.3m) after taking into account a revaluation reserve of £3.7m (2010/11: £3.7m) and the available for sale and cash flow hedging reserves of £1.2m (2010/11: deficit £2.7m).

Gross capital at 31 March 2012 was £495.9m (2010/11: £504.5m) including £175.0m of Profit participating deferred shares (2010/11: £177.3m) and £74.9m (2010/11: £74.9m) of subscribed capital.

The main Group ratios were as follows: gross capital ratio; 7.57% (2010/11: 7.58%), free capital ratio; 5.83% (2010/11: 5.86%) and liquidity ratio; 27.64% (2010/11: 21.47%). For further details see page 89.

Detailed Basel II Pillar 3 capital disclosures for the current year will be available on the Group website.

Risk Management

As the Group 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 which is part of the Basel II process.

The principal risks inherent to our business and details of how these risks are managed are set out in the Business Review (pages 8 to 20).

In addition to these principal risks there are, as a result of the current uncertain economic environment for banks and building societies, ongoing actions under the FSA's supervisory review process, which include extensive stress testing exercises. The Directors are aware, in arriving at their judgments, that the Group 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 Group's performance. Financial risks faced by the Group include interest rate, credit, liquidity and currency risks. The Group manages these risks through a risk management framework, Board policies and its Treasury and Credit Risk functions. Governance and oversight is provided through the Group Risk and Assets & Liabilities Committees. Details of the Society's financial instruments, hedging activity and risk mitigation can be found in notes 12 and 31 to the Accounts.

Mortgage Arrears

At 31 March 2012 there were 148 (2010/11: 181) residential and 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 £75.7m (2010/11: £37.7m), representing 1.42% (2010/11: 0.63%) of mortgage balances, and the amount of arrears was £6.9m (2010/11: £2.5m). 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:

John Ainley (from 18 May 2011)
Mark Gibbard*
David Huw Davies (to 27 July 2011)
Claire Hafner (from 1 September 2011)
Lesley James CBE (to 27 July 2011)
Andrew Jones*
Mark Nicholls (Chairman)
Mark Preston (from 18 May 2011)
Martin Ritchley
Robert Sharpe* (to 25 May 2011)
Richard Sommers
Colin Walklin (from 20 July 2011)
Jonathan Westhoff*

* = 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, 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 2012, the creditor days figure was 21 days (2010/11: 22 days). This conforms with the aim of paying creditors promptly.

Charitable Donations

During the year the Society donated £5,000 (2010/11: £5,000) to a local charitable organisation. The Society also raised significant sums through its community programme, affinity accounts and voluntary staff initiatives. These are outlined in the Corporate Responsibility Report (page 32).

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 Group 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 training.

The Group has systems that provide information to employees, permitting them to participate in the operation and development of the business. The Group consults with the West Bromwich Building Society Staff Union and assesses the results of annual staff satisfaction 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 functions.

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 tasks 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 annual refresher training. 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 and the rights of individuals and Trade Unions in respect of this. Accredited safety representatives are afforded every opportunity to effect this consultation and to receive training as appropriate from their Trade Union. A Health and Safety Committee is in place with representatives from across the business which meets quarterly 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 (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 International Financial Reporting Standards (IFRSs) as adopted by the EU 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 IFRSs as adopted by the EU 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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the Annual Accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

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 IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group and Society; and
- the management report contained in the Business Review includes 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 the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group 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.

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's Review on pages 3 to 6. 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 Business Review on pages 8 to 20.

In addition, note 31 to the financial statements includes 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 foreseeable future. Furthermore, the Group's capital is in excess of the FSA requirement.

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

Auditor

The auditor, KPMG Audit Plc, has expressed their willingness to continue in office. In accordance with Section 77 of the Building Societies Act 1986, a resolution for their 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 auditor is 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 auditor is aware of that information.

By order of the Board

Mark Nicholls
Chairman
31 May 2012

Directors' Report on Corporate Governance

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

Corporate Governance – a brief history and recent developments

The widely accepted articulation of good practice is the UK Code on Corporate Governance (the Code). The first version of the Code was produced in 1992 by the Cadbury Committee which defined Corporate Governance as 'the system by which companies are directed and controlled'.

The most recent version of the Code was issued in June 2010, following the 2008/9 financial crisis and the Walker Review into the governance of banks and other financial institutions.

In May 2011 the Financial Reporting Council began consulting on possible amendments to the Code that would require companies to publish their policy on board room diversity and report against it annually. The agreed changes will be implemented in a revised version of the Code in 2012 and will apply to financial years beginning on or after 1 October 2012.

The remainder of this Report sets out how the Society complies with the Code and, where a different approach is taken, explains why that is the case.

The Code's Main Principles	What the Society does to meet the Principles
A1 The Role of the Board Every company should be headed by an effective board which is collectively responsible for the long-term success of the company	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 10 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. 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. Minutes of all Committee meetings are circulated to all Directors and the Chair of each Committee reports to the subsequent Board meeting the key matters discussed. The Society has arranged appropriate insurance cover in respect of legal action against its Directors.
A2 Division of Responsibilities There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision	The positions of Chairman and Chief Executive are held by different people. The role of the Chairman includes establishing and developing an effective Board to provide support and challenge to the management team. Further details of the main responsibilities are set out in the commentary relating to Code Principle A3. The Chief Executive has overall responsibility for managing the Society and implementing Board agreed strategy.
A3 Chairman The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role	The main responsibilities of the Chairman are: • Establish and develop an effective Board, including succession planning and recruitment of Non-Executive Directors (NEDs); • Lead the Board as a team; • Ensure that the Board has agreed clear values and a Statement of 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, agree the Chief Executive's objectives and carry out regular appraisals. The Chairman is responsible for leading the appointment process for the Chief Executive; • Carry out appraisals of the NEDs; • 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 the FSA and ensure that there is an open and trustworthy relationship with the Regulator; 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 currently, the Chairman is independent in character and judgment and meets the independence criteria set out in the Code.

The Code's Main Principles	What the Society does to meet the Principles
A4 Non-Executive Directors As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy	NEDs are involved in all key Society decisions and receive detailed management information and reports to ensure they have a firm grasp of the Society's business and external operating environment. NEDs are responsible for all appointment, termination and remuneration decisions relating to the Society's Executive Directors. Martin Ritchley has been appointed as the Board's Senior Independent Director (he is also Deputy Chairman). As Senior Independent Director he leads the annual review of the Chairman's performance. The NEDs meet formally and informally without Executive Directors present.
B1 The Composition of the Board The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively	Board composition is kept under regular review by the Chairman and the Nominations Committee to ensure that it is of appropriate size and has the right skills and experience to oversee the Society's business activities. The Board believes 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 judgment and that there are no potential conflicts of interest which would affect their judgment.
B2 Appointments to the Board There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board	During the course of the last financial year, four Non-Executive Director appointments were made to the Board. In each case, the appointment process was led by the Nominations Committee, supported by the Chief Executive. The Committee used the services of an independent executive search firm to identify suitable candidates who were then interviewed by appropriate Directors. A final decision was then made by the Board. Each of the four newly appointed Directors was required to satisfy the FSA's fitness and propriety test and have been registered as 'Approved Persons'. The appointments are for a term of three years and, as required by the Society's Rules, will be subject to election at the 2012 AGM. The Board has considered the proposed changes to the Code relating to diversity. This has arisen as a result of the Davies Report entitled 'Women on Boards'. The Board agreed that diversity contributed positively to the quality of Board performance and agreed that this should be a factor in recruitment decisions, with the key focus remaining that appointments be made on merit. The Board has decided to keep under review the setting of measurable objectives. Currently the percentages of females on the Board and senior management team are 10% and 18% respectively. The terms of reference of the Nominations Committee, which is made up of NEDs, are available on request from the Group Secretary.
B3 Commitment All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively	The standard letter of appointment for NEDs sets out the expected time commitment and explains what is required if there is any material change to their commitments.
B4 Development All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge	The Society has a range of induction activities and material for NEDs appointments which is tailored to their individual experience. These include site visits, meetings with senior management and reports/information concerning the Group's operations. NEDs are also encouraged to attend appropriate externally organised events. During the last year, a development log was established to record relevant development activities undertaken by individual Directors and an intranet site introduced to give easy access to relevant material for NEDs.
B5 Information and Support The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties	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. Minutes of Board Committee meetings held since the last Board meeting are included in the papers. Where appropriate, papers are presented by the relevant member of the management team. Directors have access to independent professional advice should that be required. The Board and its Committees are served by the Group Secretary who advises on governance matters and procedures.
B6 Evaluation The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors	The most recent formal evaluation of Board and individual Director performance commenced in late 2011 and concluded in the early part of the 2012/13 financial year. The evaluations were initiated by a questionnaire and were reviewed by the Chairman and the general output discussed with the whole Board. Specific points were fed back to individual Directors by the Chairman. Evaluation of the Chairman was led by the Deputy Chairman and took the form of a questionnaire completed by all Directors other than the Chairman and a meeting to review the responses. The conclusions were shared with the Chairman. The questionnaires also sought feedback from committee members, evaluating the performance of the four Board Committees.

The Code's Main Principles	What the Society does to meet the Principles
B7 Re-election All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance	All new Directors are required by the Society's Rules to stand for election at the first Annual General Meeting following their appointment to the Board. The Code's Main Principle relating to re-election of Directors requires that they be submitted for re-election at regular intervals. One of the Supporting Provisions is that all Directors of FTSE 350 companies should be subject to annual election. Although the Society is not a FTSE 350 company, the Board would normally adopt Code Provisions which apply to such firms. Having carefully reviewed the Provision, the Board has concluded that, although very unlikely, there could be circumstances where requiring all Directors to stand for election could have an adverse outcome for the stability of the Society and that this would not be in the best interests of members. The Society's Rules require that those Directors who are due for election or who have not been re-elected in the last three years must stand for election/re-election. This means that the four Directors appointed to the Board since the end of the last financial year (31 March 2011) must stand for election. All of the other Directors were elected in 2010 or 2011 and are therefore not required by the Rules to stand for re-election in 2012. However, recognising the new Code Provision, the Board believes that it would be appropriate to bring forward the re-election (as permitted by the Rules) of one Director so that half of the Board is standing for election/re-election in 2012. The Board has agreed to keep the arrangements under review and will explain any variation to the Code in future Corporate Governance Reports.
C1 Financial and Business Reporting The board should present a balanced and understandable assessment of the company's position and prospects	The Directors' Report on pages 21 to 23 includes statements detailing the Directors' responsibilities. The Chief Executive's Review on pages 3 to 6 and the Business Review on pages 8 to 20, give an extensive report on the Society's performance, financial position and the key risks that will impact performance and risk management going forward.
C2 Risk Management and Internal Control The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems	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 corporate 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 of key indicators relating to those statements; • A formal committee structure, including an Audit & Compliance Committee (see below for more detail) and a Group Risk Committee. The minutes of the meetings of these Committees are reviewed by the full Board, the relevant Committee Chairman highlighting any key issues; • Regular reports and presentations to the Board by the Executive Directors; and • Monthly Board report on key business performance. The Society's internal audit function, with a dual reporting line to the Chief Executive and Chair of Audit & Compliance Committee, provides independent assurance regarding the adequacy and effectiveness of internal controls across all Group activities.
C3 Audit Committee and Auditors The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor	The Board has an Audit & Compliance Committee comprising four NEDs, all of whom are considered independent according to the criteria contained in the Code. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The Chairman of the Audit & Compliance Committee receives additional fees in recognition of his added responsibilities. The terms of reference of the Committee are available from the Group Secretary on request. The Society has a policy on the engagement of 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. The Society has a well established Whistleblowing Policy to enable staff to raise concerns in confidence about possible improprieties in matters of financial reporting or other issues. This policy has taken account of the Public Interest Disclosure Act 1998. During the year, the Committee received a report summarising all of the reports made under this Policy. There have been four meetings of the Committee during the financial year 2011/12. Executive Directors and other members of senior management (by invitation only) attended the meetings. Those employees who regularly attend include the Chief Executive, Group Finance Director, Group Risk Director, Head of Internal Audit and Head of Risk and Compliance. The Board receives regular reports on Committee meetings and also receives copies of the minutes of these meetings. During the last financial year, the Audit & Compliance Committee: • Validated the integrity of the Group's financial statements (including formal announcements relating to such statements); • Reviewed and approved significant financial reporting issues and accounting policies/issues; • Reviewed the Group's internal controls; • Monitored and reviewed the effectiveness of the Group's Internal Audit and Compliance functions; and • Recommended the reappointment of the external auditor (following a review of the external auditor's independence and objectivity and the effectiveness of the audit process), the remuneration and terms of engagement.

The Code's Main Principles	What the Society does to meet the Principles
D1 Level and Components of Remuneration Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance **D2 Procedure** There should be formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration	The Board has established a Remuneration Committee, comprising four NEDs, which considers and makes recommendations to the Board on key remuneration decisions relating to Society staff who have been identified in the FSA's Remuneration Code as Code Staff. The Directors' Remuneration Report on pages 28 to 31 explains how the Society, through the Remuneration Committee and Board, approaches the remuneration of Directors and other executives. The Society is subject to the FSA'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.
E1 Dialogue with Stakeholders There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility of ensuring that a satisfactory dialogue with shareholders takes place	As a mutual, the Society is owned by its members; broadly speaking this means that the Society's savers and borrowers are the owners. The Society seeks feedback from members in a number of ways, including: • Regular 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 and Mystery Shopper programme.
E2 Constructive Use of the AGM The board should use the AGM to communicate with investors and to encourage their participation	All members who are eligible to vote are sent a Summary Financial Statement and details of the Annual General Meeting (AGM) at least 21 days before the date of the meeting. Proxy forms are also included in the AGM mailing to allow those members who do not attend the meeting to cast their vote. Members are also able to submit their proxy form electronically. The Society uses independent scrutineers to count all proxy votes. All Board members are expected to be present at the AGM each year (except in the case of unavoidable absence). The Chairmen of the Audit & Compliance, Remuneration, Group Risk and Nominations Committees are available to answer questions at the AGM.

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 & Compliance	Group Risk	Remuneration
Mark Nicholls	10 (10)	2 (2)			6 (7)
John Ainley (from 18 May 2011)	8 (10)	2 (2)			6 (6)
Huw Davies (to 27 July 2011)	4 (4)		0 (1)		
Mark Gibbard	10 (10)			8 (8)	
Claire Hafner (from 1 September 2011)	5 (6)		2 (3)		5 (5)
Lesley James CBE (to 27 July 2011)	4 (4)				2 (2)
Andrew Jones	10 (10)			8 (8)	
Mark Preston (from 18 May 2011)	9 (10)			5 (6)	
Martin Ritchley	10 (10)	2 (2)	4 (4)	8 (8)	7 (7)
Robert Sharpe (to 25 May 2011)	2 (2)			1 (1)	
Richard Sommers	10 (10)	1 (2)	4 (4)	8 (8)	2 (2)
Colin Walklin (from 20 July 2011)	7 (8)		3 (3)	6 (6)	
Jonathan Westhoff	10 (10)			8 (8)	

Mark Nicholls
Chairman
31 May 2012

Directors' Remuneration Report

Introduction

This Report sets out the Remuneration Policy (the Policy) for the Society's Directors and details their remuneration for the year to 31 March 2012.

The Policy takes account of areas of the UK Corporate Governance Code that are considered appropriate to building societies, the disclosure requirements of the third EU Capital Requirements Directive and the detailed requirements of the Financial Services Authority's (FSA's) Remuneration Code (the Code).

Under the Code, the Society is required to identify those staff who are considered to have a material impact on the Society's risk profile. This includes all Executive and Non-Executive Directors, all members of the Society's Executive Committee (ExCo) and other senior individuals in the Treasury and Risk areas. These individuals are defined as 'Code Staff'.

All eligible members receive this Report and are entitled to participate in an advisory vote on the Report at the 2012 Annual General Meeting.

The Report covers the following areas:

- Remuneration Committee membership and responsibilities;
- Remuneration Policy and Practice;
- Details of Executive Director service contracts; and
- Non-Executive Director and Executive Director remuneration and fees.

Remuneration Committee Membership and Responsibilities

Membership

The members of the Remuneration Committee during the financial year 2011/12 were: Lesley James CBE (Chair) until her resignation on 27 July 2011, John Ainley (Chair) from 27 July 2011, Mark Nicholls, Martin Ritchley, Richard Sommers (until his resignation from the Committee on 27 July 2011) and Claire Hafner from 25 October 2011.

All members of the Committee are Non-Executive Directors. Under the Committee's terms of reference one member of the Committee must also be a member of either the Group Risk Committee or Audit & Compliance Committee.

In addition, the Society's Chief Executive, Group Finance Director, Group Risk Director and Head of Human Resources attend meetings by invitation.

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

The Committee receives an annual report, presented jointly by the Head of Risk and Compliance and the Head of Internal Audit. This report provides information on whether any activity by any individual has been observed that would impact on the eligibility of incentive arrangements.

No member or invitee is present when their own remuneration is discussed.

The Terms of Reference for the Committee were last updated in January 2012 to reflect the Code. The Terms of Reference are available on request from the Group Secretary.

Responsibilities

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

In addition to the normal Committee activities this year, the Committee has spent considerable time considering the impact of the Code with which the Society is required to comply as a Tier 2 firm. Details of the Code can be found at www.fsa.gov.uk.

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

Remuneration Policy and Practice

At the start of the year the Committee reviewed and recommended to the Board the Society's Remuneration Policy, which has subsequently been updated in line with the Code requirements. The Policy is designed to promote appropriate behaviours and is aligned with the Society's risk appetite.

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.
- 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.
- Performance-related pay is performance dependent and able to be earned at virtually every level of the Society.
- The Policy follows the requirements of the Code for Tier 2 firms; any breaches or suspected breaches will be reported to the FSA.

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

The approach of the Remuneration Committee is to provide remuneration that is sufficient to attract, retain and motivate Executive Directors of a sufficient calibre, with full consideration of other stakeholders such as regulators and members.

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.

In 2010, in advance of the requirement of the Remuneration Code, the Society introduced the use of deferral in respect of performance-related pay. This has created a timing difference between the award of such pay and its payment. In order to report remuneration transparently to members, the total amount awarded to each Executive Director has been reported, as well as a separate table showing the element of performance-related pay deferred to subsequent years. Performance-related pay deferred to future years is subject to review by the Remuneration Committee at the appropriate time before any payment is made.

The change in presentation adopted this year has required the Society to restate the Executive Director remuneration table for 2010/11.

The component parts of the remuneration package for Executive Directors are as follows:

a) Basic Salary
Basic salary is determined by the Committee and reflects individual skills and experience as well as the responsibilities of the role.

b) Performance-Related Pay
Performance-related pay is used to incentivise Executive Directors to achieve the longer term goals of the Society and is based on a number of financial and non-financial measures. In the current year these measures related to:

- Profitability
- Income
- Efficiency
- Systems implementation
- Reduction of commercial lending exposures
- Service
- Conduct risk
- People development.

The maximum payable is 50% of basic salary. In compliance with the requirements of the Code, 40% of any award made is deferred over a three year period. Deferred payments are made in equal instalments over the following three years and are subject to annual review and recommendation by the Committee and approved by the Non-Executive members of the Board. Some or all of the deferred element can be reduced or cancelled by the Board. All performance-related payments are non-pensionable.

c) Pension
No Executive Director is or has been a member of any of the Society's Pension Schemes, except Mr Jones who is a deferred member of the Society's defined benefit scheme from the time he was a member of staff between 1979 and 1985. Instead, Executive Directors receive a pension allowance of 25% of basic salary for Mr Westhoff and 20% for Mr Gibbard and Mr Jones.

d) Other Benefits
All Executive Directors receive a fully expensed car or a car allowance, private medical cover for themselves and their family, life assurance and, with the exception of Mr Gibbard, a housing allowance.

Executive Director 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 twelve months' notice if given by the Society or six months' notice if given by the Director.

All new service contracts for Executive Directors are subject to approval by the Remuneration Committee.

On 31 March 2011 Mr Sharpe gave the Board notice of his intention to leave the Society. The Board agreed a leaving date of 25 May 2011. Mr Sharpe received no payment in lieu of notice and is not eligible for any performance-related payment for service between 1 April 2011 and 25 May 2011. He is eligible, subject to Board approval, to deferred performance-related payments relating to the period 1 April 2010 to 31 March 2011.

Non-Executive and Executive Director Remuneration and Fees

Non-Executive Directors
The level of remuneration for Non-Executive Directors reflects their responsibilities and time commitment for Board and Board Committees. Non-Executive Directors only receive fees, they do not participate in any performance-related awards, nor do they receive any pension provision or any other benefits. Non-Executive Director fees are reviewed annually by the Chairman and the Executive Directors. The fees for the Chairman are reviewed and recommended by the Remuneration Committee and approved by the Board at meetings which he does not attend. New fee levels were applied in April 2010, no increase in fees was awarded in 2011 for either the Chairman or other Non-Executive Directors. The fees for the Deputy Chairman, whose duties include acting as Senior Independent Director, have been set at a level that reflect his responsibilities and membership of all four Board Committees.

Non-Executive Directors do not have service contracts or a notice period and have instead letters of engagement which determine their time commitment and responsibilities.

Non-Executive Director Fees (Audited)

Non-Executive Director	Date Appointed	Date Appointment Ceased	2011/12 £000	2010/11 £000
Mark Nicholls	01/01/10		**100**	100
John Ainley	18/05/11		**53**	-
Claire Hafner	01/09/11		**29**	-
Huw Davies	27/09/06	27/07/11	**17**	50
Edwin Hucks	25/07/00	27/07/10	**-**	22
Lesley James CBE	01/01/01	27/07/11	**18**	55
Mark Preston	18/05/11		**44**	-
Martin Ritchley (2)	01/09/09		**70**	64
Bharat Shah (1)	22/07/04	27/07/10	**-**	18
Richard Sommers	01/10/09		**60**	58
Colin Walklin	20/07/11		**42**	-
Total			**433**	367

Notes:

1 After ceasing to be a Non-Executive Director, Mr Shah agreed to remain as Chairman of the Society's now closed Defined Benefit Pension Scheme. He received £25,000 (2010/11: £17, 000) in respect of this role.

2 Martin Ritchley was appointed Deputy Chairman and Senior Independent Director on 27 July 2010.

Executive Director Remuneration – 2011/12 (Audited)

Executive Director	Basic Salary £000	Performance-Related Pay [2] £000	Pension £000	Other Benefits £000	Total £000
Jonathan Westhoff [1]	316	77	77	18	**488**
Mark Gibbard	262	71	52	22	**407**
Andrew Jones	185	57	37	16	**295**
Robert Sharpe (until 25/05/11)	62	-	16	5	**83**
Total	**825**	**205**	**182**	**61**	**1,273**

Executive Director Remuneration – 2010/11 (restated [4]) (Audited)

Executive Director	Basic Salary £000	Performance-Related Pay [2] £000	Pension £000	Other Benefits £000	Total £000
Jonathan Westhoff	237	118	47	21	423
Mark Gibbard (from 16/02/11)	28	12	6	2	48
Andrew Jones (from 24/11/10)	63	25	13	7	108
Robert Sharpe [3]	390	195	98	28	711
Total	718	350	164	58	1,290

Notes:
1 Chief Executive from 25 May 2011.
2 Included in the amounts shown above is an element that is subject to deferral. The table below headed 'Executive Director Deferred Performance-Related Pay Payable in Future Years' details the amount due for payment, subject to review by the Remuneration Committee at the appropriate time.
3 Mr Sharpe resigned from the Board on 25 May 2011 and received no payments or benefits in lieu of notice, and has received no performance-related pay in respect of service between 1 April 2011 and 25 May 2011.
4 The change in presentation, explained on pages 28 and 29, has required the Society to restate the Executive Director remuneration table for 2010/11.

A proportion of the 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 may be reduced or cancelled as appropriate.

Executive Director Deferred Performance-Related Pay
Payable in Future Years

		Deferral due			
Executive Director	**Deferred From**	**2011/12 £000**	**2012/13 £000**	**2013/14 £000**	**2014/15 £000**
Jonathan Westhoff	2010/11	30	30	-	-
	2011/12	-	10	10	10
Total		**30**	**40**	**10**	**10**
Mark Gibbard	2010/11	3	3	-	-
	2011/12	-	9	9	9
Total		**3**	**12**	**9**	**9**
Andrew Jones	2010/11	6	6	-	-
	2011/12	-	8	8	8
Total		**6**	**14**	**8**	**8**
Robert Sharpe	2010/11	49	49	-	-
Total		**49**	**49**	**-**	**-**

Deferred elements due in 2011/12 (shown in the table above) have been paid in full since 31 March 2012.

John Ainley
Chairman of Remuneration Committee
31 May 2012

Corporate Responsibility Report

As a mutual organisation, the West Brom believes strongly in establishing and nurturing close relationships with the communities we serve. This is a long-held belief and can be seen in the way the Society seeks to ensure the commitment we make to our members, staff, business partners and local communities is guided by the principles of mutuality.

Community

The West Brom is fully aware of the influential role it can play within the local communities it serves. This is expressed in a number of ways, most notably:

- Providing financial aid to local charities and community groups;
- Holding fundraising activities on behalf of the Society's annually chosen charity; and
- An agreed volunteer programme encouraging staff to engage in supportive projects and initiatives within the community.

Over the past year, we have developed or introduced several significant initiatives:

- The long-standing affinity partnership with the Diocese of Lichfield (the Mercian Community Trust) continued to be a major lynchpin in the Society's contribution to help tackle deprivation and disadvantage. This has seen financial assistance directed towards projects relating to concerns such as health, education, disability, old age, domestic violence and debt counselling services.
- The Society also operates a number of other affinity relationships, which support social and community involvement in a variety of areas, such as sport, recreation and, importantly, health. For instance, West Bromwich Albion Football Club, Warwickshire County Cricket and Severn Valley Railway, where the affinity relationships are crucial in enhancing facilities and opportunities for young people. An affinity account deserving perhaps of particular note is the Red Balloon Account on behalf of Birmingham Children's Hospital, an organisation that has a particularly special place in the affections of generations of people within the region.
- The awareness that many charitable and community groups do an enormous amount at a grassroots level inspired the Society's thinking behind a new and imaginative scheme. The Community Counts campaign, which is channelled through the Society's branch network, was launched with the aim of financially assisting those organisations engaged in specific charitable initiatives within the immediate locality of our branches. Being part of the communities they serve, the Society's branches represent an ideal way to promote this campaign, as well as enabling the West Brom to foster even closer links with surrounding communities.
- The generosity and goodwill of staff at the West Brom was again evident in the support given to the Society's chosen charity, Acorns Children's Hospice. Fundraising for the Society's annually nominated charity has always been an enthusiastic focus for staff, and that was apparent during the course of the year with staff organising a host of fundraising activities. These activities contributed towards the £20,000 raised for Acorns.
- Giving money is, of course, invaluable when supporting local good causes, but giving time in the form of volunteering is also seen by the Society as an essential element in our commitment to the community. The Society relaunched its volunteer programme, which encourages staff to give their time and energy for the benefit of local charities and community groups. This was again most visible in the Society's relationship with Acorns where our staff volunteered on several necessary projects, including gardening and decorating, telephone campaigning, organising a Halloween party and a Christmas Gift Appeal.

Environment

The Society acknowledges its impact on the environment and, accordingly, makes every effort to minimise any harmful effects to the environment by evaluating its carbon footprint and limiting unnecessary waste and energy. In line with this objective, the Society has been examining a number of options, such as recycling, managing paper use, purchasing, storage and archiving, together with informing staff on steps to be taken on relevant green and energy matters.

With this environmental awareness in mind, the Society has taken several actions, such as:

- Representation on the Sandwell Climate Change Partnership, which comprises major organisations from both the public and private sectors, with a shared objective to tackle the challenges faced by the borough when it comes to the issue of climate change;
- The Society's procurement policy requires us to review the ethical and environmental policies of potential suppliers to ensure they are consistent with the West Brom's stipulated criteria. That also means assessing the supply chain and lifecycle of products or services. In this respect, the Society's support for the economic regeneration of the region guides our practice of giving preference, where practicable, to local enterprises;
- Recycling is a significant component in the Society's pursuit of sustainable development and encompasses a variety of consumables, including, waste paper and toner cartridges. Office furniture is also recycled using the services of the Green Works charity, which promotes the re-use of resources, so benefiting many smaller community organisations; and
- Certain consumables, such as paper supplies, are sourced from sustainable forests while, additionally, the Society continues to evaluate any new consumables for their potential environmental consequences.

As a Society, we take our corporate responsibilities seriously. This commitment means operating in a way that takes proper account of the impact of our business on the environment. Accordingly, we are constantly looking at how the Society can improve its practices, both as individuals and as a corporate citizen, given the pressing concerns presented by environmental depreciation and climate change.

Independent Auditor's Report

Independent Auditor's Report to the Members of West Bromwich Building Society

We have audited the Group and Society Annual Accounts of West Bromwich Building Society for the year ended 31 March 2012 set out on pages 34 to 88. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 22 to 23, the Directors are responsible for the preparation of Annual Accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Annual Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Annual Accounts

A description of the scope of an audit of Annual Accounts is provided on the APB's website at **www.frc.org.uk/apb/scope/private.cfm.**

Opinion on Annual Accounts

In our opinion the Annual Accounts:

- Give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the Group and of the Society as at 31 March 2012 and of the income and expenditure of the Group and of the Society for the year then ended; and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it and, as regards the Group Annual Accounts, Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Building Societies Act 1986

In our opinion:

- The Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- The information given in the Directors' Report for the financial year for which the Annual Accounts are prepared 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.

Matters on which We are Required to Report by Exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Society; or
- The 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.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
31 May 2012

Income Statements

for the year ended 31 March 2012

	Notes	Group 2012 £m	Group* 2011 £m	Society 2012 £m	Society* 2011 £m
Interest receivable and similar income	2	**180.8**	190.7	**167.3**	182.6
Interest expense and similar charges	3	**(145.9)**	(156.3)	**(140.8)**	(151.4)
Net interest receivable		**34.9**	34.4	**26.5**	31.2
Fees and commissions receivable		**6.1**	5.7	**2.9**	2.7
Other operating income	4	**4.4**	4.1	**0.5**	0.4
Total operating income		**45.4**	44.2	**29.9**	34.3
Fair value losses on financial instruments		**(3.0)**	(9.1)	**(2.9)**	(9.5)
Net realised profits	5	**5.2**	15.6	**5.2**	15.6
Total income		**47.6**	50.7	**32.2**	40.4
Administrative expenses – ongoing	6	**(38.2)**	(36.1)	**(31.4)**	(30.4)
Administrative expenses – restructuring	6	**(0.1)**	(0.3)	**(0.1)**	(0.3)
Depreciation and amortisation	17,19	**(4.7)**	(5.0)	**(4.6)**	(5.0)
Operating profit/(loss) before impairments, provisions and revaluation losses		**4.6**	9.3	**(3.9)**	4.7
Losses on investment properties	18	**(1.0)**	(1.9)	**-**	-
Impairment of investment	15(a)	**-**	-	**-**	(0.6)
Impairment losses on loans and advances	14	**(10.5)**	(16.8)	**(3.2)**	(6.3)
Provisions for liabilities – FSCS Levy	25	**(2.9)**	(2.2)	**(2.9)**	(2.2)
Provisions for liabilities – other	25	**0.3**	(1.5)	**0.3**	(1.5)
Loss before tax		**(9.5)**	(13.1)	**(9.7)**	(5.9)
Taxation	9	**0.3**	3.4	**2.9**	5.3
Loss for the financial year from continuing operations		**(9.2)**	(9.7)	**(6.8)**	(0.6)
Discontinued operations					
Loss from discontinued operations	15(b)	**-**	(0.7)	**-**	-
Loss for the financial year		**(9.2)**	(10.4)	**(6.8)**	(0.6)

The notes on pages 41 to 88 form part of these accounts.

* The results for 2011 have been restated. See notes 2 and 3 for further details.

Statements of Comprehensive Income

for the year ended 31 March 2012

	Notes	Group 2012 £m	Group 2011 £m
Loss for the financial year		**(9.2)**	(10.4)
Other comprehensive income			
Available for sale investments			
Valuation gain taken to equity		**10.5**	14.0
Amounts transferred to Income Statement		**(5.2)**	(15.6)
Actuarial (loss)/gain on retirement benefit obligations	30	**(4.3)**	0.7
Cash flow hedge gains/(losses) taken to equity		**0.1**	(0.3)
Tax on items taken directly to equity	29	**(0.5)**	1.1
Other comprehensive income for the financial year, net of tax		**0.6**	(0.1)
Total comprehensive income for the financial year		**(8.6)**	(10.5)

	Notes	Society 2012 £m	Society 2011 £m
Loss for the financial year		**(6.8)**	(0.6)
Other comprehensive income			
Available for sale investments			
Valuation gain taken to equity		**10.5**	14.0
Amounts transferred to Income Statement		**(5.2)**	(15.6)
Actuarial (loss)/gain on retirement benefit obligations	30	**(4.3)**	0.7
Cash flow hedge gains/(losses) taken to equity		**0.1**	(0.3)
Tax on items taken directly to equity	29	**(0.5)**	1.1
Other comprehensive income for the financial year, net of tax		**0.6**	(0.1)
Total comprehensive income for the financial year		**(6.2)**	(0.7)

The notes on pages 41 to 88 form part of these accounts.

Statements of Financial Position

at 31 March 2012

	Notes	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Assets					
Cash and balances with the Bank of England	10	**769.2**	385.4	**769.2**	385.4
Loans and advances to credit institutions		**117.5**	124.7	**50.9**	50.2
Investment securities	11	**924.5**	918.6	**2,056.4**	2,084.0
Derivative financial instruments	12	**64.5**	73.4	**81.7**	86.8
Loans and advances to customers	13	**5,373.6**	5,880.1	**1,896.3**	2,111.4
Current tax assets		**-**	1.9	**0.2**	2.2
Deferred tax assets	20	**25.7**	23.8	**12.2**	11.2
Trade and other receivables	21	**4.3**	5.8	**3.6**	3.0
Investments	15	**-**	-	**2,274.7**	2,498.3
Intangible assets	16,17	**7.5**	7.2	**6.9**	6.6
Investment properties	18	**112.7**	113.7	**-**	-
Property, plant and equipment	19	**17.6**	12.6	**17.6**	12.5
Retirement benefit assets	30	**-**	1.8	**-**	1.8
Total assets		**7,417.1**	7,549.0	**7,169.7**	7,253.4
Liabilities					
Shares	22	**5,672.8**	5,711.9	**5,672.8**	5,711.9
Amounts due to credit institutions		**48.6**	64.3	**48.6**	64.3
Amounts due to other customers		**129.7**	131.6	**129.7**	131.6
Derivative financial instruments	12	**107.8**	79.8	**91.5**	66.5
Debt securities in issue	23	**927.4**	1,025.3	**702.0**	747.8
Deferred tax liabilities	20	**8.2**	6.2	**0.5**	1.7
Trade and other payables	24	**19.9**	18.6	**15.3**	14.1
Provisions for liabilities	25	**6.4**	6.8	**6.4**	6.8
Retirement benefit obligations	30	**0.4**	-	**0.4**	-
Total liabilities		**6,921.2**	7,044.5	**6,667.2**	6,744.7
Equity					
Profit participating deferred shares	27	**175.0**	177.3	**175.0**	177.3
Subscribed capital	26	**74.9**	74.9	**74.9**	74.9
General reserves		**241.1**	251.3	**247.7**	255.5
Revaluation reserve		**3.7**	3.7	**3.7**	3.7
Available for sale reserve		**1.2**	(2.6)	**1.2**	(2.6)
Cash flow hedging reserve		**-**	(0.1)	**-**	(0.1)
Total equity attributable to members		**495.9**	504.5	**502.5**	508.7
Total liabilities and equity		**7,417.1**	7,549.0	**7,169.7**	7,253.4

The accounting policies and notes on pages 41 to 88 form part of these accounts.
Approved by the Board of Directors on 31 May 2012 and signed on its behalf by:

Mark Nicholls
Chairman

Jonathan Westhoff
Chief Executive

Mark Gibbard
Group Finance Director

Statements of Changes in Members' Interest

for the year ended 31 March 2012

Group	**Profit participating deferred shares £m**	**Subscribed capital £m**	**General reserves £m**	**Revaluation reserve £m**	**Available for sale reserve £m**	**Cash flow hedging reserve £m**	**Total £m**
At 1 April 2011	**177.3**	**74.9**	**251.3**	**3.7**	**(2.6)**	**(0.1)**	**504.5**
Loss for the financial year	(2.3)	-	(6.9)	-	-	-	**(9.2)**
Other comprehensive income for the period							
Available for sale investments: valuation gain taken to equity	-	-	-	-	3.8	-	**3.8**
Actuarial loss on retirement benefit obligations	-	-	(3.3)	-	-	-	**(3.3)**
Cash flow hedge gains taken to equity	-	-	-	-	-	0.1	**0.1**
Total other comprehensive income	**-**	**-**	**(3.3)**	**-**	**3.8**	**0.1**	**0.6**
Total comprehensive income for the year	**(2.3)**	**-**	**(10.2)**	**-**	**3.8**	**0.1**	**(8.6)**
At 31 March 2012	**175.0**	**74.9**	**241.1**	**3.7**	**1.2**	**-**	**495.9**

for the year ended 31 March 2011

Group	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2010	179.9	74.9	258.5	3.8	(2.3)	0.2	515.0
Loss for the financial year	(2.6)	-	(7.8)	-	-	-	(10.4)
Other comprehensive income for the period							
Available for sale investments: valuation loss taken to equity	-	-	-	-	(0.3)	-	(0.3)
Realisation of previous revaluation gains	-	-	0.1	(0.1)	-	-	-
Actuarial gain on retirement benefit obligations	-	-	0.5	-	-	-	0.5
Cash flow hedge losses taken to equity	-	-	-	-	-	(0.3)	(0.3)
Total other comprehensive income	-	-	0.6	(0.1)	(0.3)	(0.3)	(0.1)
Total comprehensive income for the year	(2.6)	-	(7.2)	(0.1)	(0.3)	(0.3)	(10.5)
At 31 March 2011	177.3	74.9	251.3	3.7	(2.6)	(0.1)	504.5

Under the terms of the profit participating deferred shares (PPDS), 25% of the annual post tax profits or (losses) are allocated against the PPDS reserve.
The notes on pages 41 to 88 form part of these accounts.

Statements of Changes in Members' Interest

for the year ended 31 March 2012

Society	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2011	**177.3**	**74.9**	**255.5**	**3.7**	**(2.6)**	**(0.1)**	**508.7**
Loss for the financial year	(2.3)	-	(4.5)	-	-	-	**(6.8)**
Other comprehensive income for the period							
Available for sale investments: valuation gain taken to equity	-	-	-	-	3.8	-	**3.8**
Actuarial loss on retirement benefit obligations	-	-	(3.3)	-	-	-	**(3.3)**
Cash flow hedge gains taken to equity	-	-	-	-	-	0.1	**0.1**
Total other comprehensive income	**-**	**-**	**(3.3)**	**-**	**3.8**	**0.1**	**0.6**
Total comprehensive income for the year	**(2.3)**	**-**	**(7.8)**	**-**	**3.8**	**0.1**	**(6.2)**
At 31 March 2012	**175.0**	**74.9**	**247.7**	**3.7**	**1.2**	**-**	**502.5**

for the year ended 31 March 2011

Society	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2010	179.9	74.9	252.9	3.8	(2.3)	0.2	509.4
(Loss)/Profit for the financial year	(2.6)	-	2.0	-	-	-	(0.6)
Other comprehensive income for the period							
Available for sale investments: valuation loss taken to equity	-	-	-	-	(0.3)	-	(0.3)
Realisation of previous revaluation gains	-	-	0.1	(0.1)	-	-	-
Actuarial gain on retirement benefit obligations	-	-	0.5	-	-	-	0.5
Cash flow hedge losses taken to equity	-	-	-	-	-	(0.3)	(0.3)
Total other comprehensive income	-	-	0.6	(0.1)	(0.3)	(0.3)	(0.1)
Total comprehensive income for the year	(2.6)	-	2.6	(0.1)	(0.3)	(0.3)	(0.7)
At 31 March 2011	177.3	74.9	255.5	3.7	(2.6)	(0.1)	508.7

Under the terms of the profit participating deferred shares (PPDS), 25% of the annual post tax profits or (losses) are allocated against the PPDS reserve.
The notes on pages 41 to 88 form part of these accounts.

Statements of Cash Flows

for the year ended 31 March 2012

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Net cash inflow/(outflow) from operating activities (see overleaf)	**465.8**	(368.8)	**164.5**	(673.2)
Cash flows from investing activities				
Purchase of investment securities	**(2,018.8)**	(3,756.7)	**(2,018.8)**	(3,756.7)
Proceeds from disposal of investment securities	**2,201.4**	3,781.9	**2,234.9**	3,797.8
Purchase of property, plant and equipment and intangible assets	**(10.3)**	(4.4)	**(10.3)**	(4.4)
Proceeds from disposal of property, plant and equipment	**0.2**	1.7	**0.2**	1.7
Purchase of investment property	**-**	(0.3)	**-**	-
Proceeds from disposal of investment properties	**-**	0.7	**-**	-
New funding to subsidiaries	**-**	-	**(117.8)**	13.6
Repayment of funding from subsidiaries	**-**	-	**341.4**	222.2
Net cash flows from investing activities	**172.5**	22.9	**429.6**	274.2
Cash flows from financing activities				
Net (repayment)/issue of other debt securities	**(27.6)**	216.0	**(27.6)**	216.0
Repayment of mortgage backed loan notes	**(52.1)**	(63.1)	**-**	-
Net cash flows from financing activities	**(79.7)**	152.9	**(27.6)**	216.0
Net increase/(decrease) in cash	**558.6**	(193.0)	**566.5**	(183.0)
Cash and cash equivalents at beginning of year	**575.2**	768.2	**500.7**	683.7
Cash and cash equivalents at end of year	**1,133.8**	575.2	**1,067.2**	500.7

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 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Cash in hand (including Bank of England reserve account)	**763.7**	379.6	**763.7**	379.6
Loans and advances to credit institutions	**116.1**	124.7	**49.5**	50.2
Investment securities	**254.0**	70.9	**254.0**	70.9
	1,133.8	575.2	**1,067.2**	500.7

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2012, amounted to £5.5m (2010/11: £5.8m). The movement in this balance is included within cash flows from operating activities.

Statements of Cash Flows (continued)

for the year ended 31 March 2012

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Cash flows from operating activities				
Loss on ordinary activities before tax from continuing activities	**(9.5)**	(13.1)	**(9.7)**	(5.9)
Loss on ordinary activities before tax from discontinued activities	**-**	(0.7)	**-**	-
Movement in prepayments and accrued income	**(0.8)**	0.4	**(0.8)**	0.3
Movement in accruals and deferred income	**4.3**	(3.1)	**2.0**	(1.8)
Impairment losses on loans and advances	**10.5**	16.8	**3.2**	6.3
Depreciation and amortisation	**4.7**	5.0	**4.6**	5.0
Disposal of fixed assets and investment properties	**-**	(0.4)	**-**	(0.4)
Revaluations of investment properties, land and buildings	**1.0**	1.9	**-**	-
Movement in provisions for liabilities	**(0.4)**	0.8	**(0.4)**	0.8
Movement in derivative financial instruments	**36.9**	(11.9)	**30.1**	(2.8)
Movement in fair value adjustments	**(15.0)**	11.9	**0.7**	(3.1)
Change in retirement benefit obligations	**(2.1)**	(3.1)	**(2.1)**	(3.1)
Cash flows from operating activities before changes in operating assets and liabilities	**29.6**	4.5	**27.6**	(4.7)
Movement in loans and advances to customers	**517.1**	518.0	**217.3**	226.8
Movement in loans and advances to credit institutions	**(1.1)**	-	**(1.1)**	-
Movement in shares	**(38.1)**	(831.8)	**(38.1)**	(831.8)
Movement in deposits and other borrowings	**(42.8)**	(70.4)	**(42.8)**	(70.4)
Movement in trade and other receivables	**2.3**	(0.2)	**0.2**	2.5
Movement in trade and other payables	**(3.3)**	11.1	**1.4**	4.2
Tax received	**2.1**	-	**-**	0.2
Net cash inflow/(outflow) from operating activities	**465.8**	(368.8)	**164.5**	(673.2)

The notes on pages 41 to 88 form part of these accounts.

Notes to the Accounts for the year ended 31 March 2012

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 Financial Reporting Standards (IFRS) and its interpretations as adopted by the EU and effective at 31 March 2012; and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Building Societies Act 1986 applicable to societies reporting under IFRS.

The Annual Accounts have been prepared under the historical cost convention as modified by the revaluation of available for sale 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 resultant forecasts and projections show that the Group will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

The Directors, therefore, consider that the Society and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements. For further details see the Directors' Report on pages 21 to 23.

Accounting developments

The following Accounting Standard amendments have been applied for the first time in 2011/12:

- Amendment to IFRS 7 'Financial Instruments: Disclosures' (October 2010) which extends the scope of IFRS 7 disclosures but does not change the recognition or measurement of transactions in the financial statements;
- IAS 24 (Revised November 2009) 'Related Party Disclosures'. The application of this revised Standard does not have a material impact on the financial statements;
- IFRIC 14 (Amended November 2009) 'Prepayments of a Minimum Funding Requirement'. The application of this amendment does not have a material impact on the financial statements; and
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'. This Standard does not have a material impact on the financial statements.

The following Accounting Standards are neither adopted by the European Union nor effective for 2011/12:

- IFRS 9 'Financial Instruments';
- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosure of Interests in Other Entities'; and
- IFRS 13 'Fair Value Measurement'.

These standards are subject to EU endorsement, the timing of which is uncertain. IFRS 10, IFRS 11, IFRS 12 and IFRS 13 are currently expected to be effective for annual periods beginning on or after 1 January 2013 and IFRS 9 is expected to be effective for periods beginning on or after 1 January 2015. The Group is monitoring developments and considering the associated impact on the Report and Accounts.

The Group did not early-adopt any of the above in the financial year ended 31 March 2012.

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. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

Inter-company 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 charges for impairment.

Securitisation transactions

The Group has entered into securitisation transactions in which it sells mortgages to Special Purpose Entities (SPEs). In accordance with IAS 39, the Group continues to recognise securitised assets as loans and advances to customers. In subsequent periods, income from the securitised mortgages is recognised by the Group as disclosed overleaf.

The equity of the SPEs created for these securitisations is not owned by the Group. However, to comply with the Building Societies Act 1986 (International Accounting Standards and Other Accounting Amendments) Order 2004 and Standing Interpretations Committee (SIC) 12, the SPEs are included as subsidiaries in the consolidated financial statements.

Assets held for sale and discontinued operations

When the Group intends to dispose of, or classify as held for sale, a business component that represents a separate major line of business or geographical area of operations it classifies such operations as discontinued. The post tax profit or loss of the discontinued operations is shown as a single amount on the face of the Income Statement, separate from the other results of the Group.

1. Accounting policies (continued)

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when management are committed to the sale.

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 34.

Interest receivable and expense

Interest receivable and expense are recognised in the Income Statement for all instruments measured at amortised cost or available for sale using the effective interest rate method. Interest income or expense on other financial instruments is recognised within interest receivable/interest payable. Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

Effective interest rate

The effective interest rate 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 cash flows (excluding credit losses) to zero, through the expected life of the instrument. The main impact for the Group relates to mortgage advances where fees, such as application and arrangement fees, and costs are incorporated in the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage. Expected lives are estimated using historic data and management judgment and the calculation is adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the Income Statement.

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 recognised as an adjustment to the effective interest rate on the loan. 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 by a qualified internal valuer and at least every five years by an external valuer. 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

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the Statement of Financial Position and measured in accordance with their assigned category.

a) Financial assets

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held to maturity investments; and available for sale financial assets. Management determines the classification of its financial instruments at initial recognition. Purchases and sales of financial assets are accounted for at settlement date in line with industry practice.

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from operational, financing and investment activities.

In accordance with its treasury 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 either be offset in the Income Statement or deferred to equity.

There are two types of hedge accounting strategies that the Group undertakes and these are summarised below:

- hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedges); or
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedges).

Hedge accounting is used for derivatives designated in this way provided that certain criteria are met.

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.

i) Fair value hedges – 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.

ii) Cash flow hedges – The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised within the Statement of Comprehensive income and the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income

Statement. Amounts accumulated in equity are recycled to the Income Statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast mortgage completion that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in other operating income within the Income Statement. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

iii) 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. Certain derivatives are embedded within other non-derivative financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risk of the host instrument and where the hybrid instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in fair value of the embedded derivative recognised in the Income Statement. Depending on the classification of the host instrument, it is then measured in accordance with the relevant IFRS standard.

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial asset is part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial asset consists of a debt host and embedded derivative that must be separated.

To reduce accounting mismatch, the fair value option is applied to certain loans and receivables that are hedged with credit derivatives or interest rate swaps but for which the hedge accounting conditions of IAS 39 are not fulfilled. The loans would have been otherwise accounted for at amortised cost, whereas the derivatives are measured at fair value through profit or loss.

Financial assets for which the fair value option is applied are recognised in the notes to the accounts as financial assets designated at fair value. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised as net gains on financial instruments designated at fair value through profit or loss.

Available for sale (AFS)
Available for sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. The Group's investment securities (e.g. certificates of deposit, gilts, etc) are classified as available for sale assets.

Available for sale financial assets are initially recognised at fair value, which is the cash consideration including any directly attributable transaction costs, and measured subsequently at fair value with gains and losses being recognised in the consolidated Statement of Comprehensive Income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the Income Statement as a reclassification adjustment.

Interest is calculated using the effective interest rate method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated Income Statement. Dividends on available for sale equity instruments are recognised in the Income Statement in dividend income when the Group's right to receive payment is established.

The Group assesses at each year end date whether there is objective evidence that a financial asset has been impaired. If an available for sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the Statement of Comprehensive Income is recognised in the Income Statement. If in a subsequent period the fair value increases, the impairment loss is reversed with the amount of the reversal recognised in the Income Statement.

The fair values of available for sale 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.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; or
- those that the Group upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any directly attributable transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the Statement of Financial Position as loans and advances to credit institutions or customers or as investment securities. Interest on loans is included in the consolidated Income Statement and is reported as interest receivable and similar income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the Income Statement as impairment losses on loans and advances.

Held to maturity financial assets
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

- those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group designates as available for sale; and
- those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest rate method. Interest on held to maturity investments is included in the Income Statement and reported as interest receivable and similar income. In the case of an impairment, the impairment loss has been reported as a deduction from the carrying value of the investment and recognised in the Income Statement as net gains/(losses) on investment securities.

b) Financial liabilities
The Group's holding in financial liabilities is in financial liabilities at fair value through profit or loss, financial liabilities at amortised cost and hedging derivatives. Financial liabilities are derecognised when extinguished.

All financial liabilities including shares, deposits, debt securities in issue and subordinated liabilities held by the Group are recognised initially at fair value, being the Issue proceeds, net of premia, discounts and directly attributable transaction costs incurred.

1. Accounting policies (continued)

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method, except for those financial liabilities, for example derivative liabilities, which are measured at fair value through profit or loss.

c) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated by management. The Group may designate financial instruments at fair value when the designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criteria, the main classes of financial instruments designated by the Group are where;

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

The fair value designation, once made, is irrevocable. Designation of financial assets and financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally trade date, and are normally derecognised when sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken directly to the Income Statement. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in net income from financial instruments designated at fair value. Note 28 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss.

d) Impairment of financial assets

Impairment of mortgage loans and advances

The Group assesses at each year end date whether there is objective evidence that a financial asset is impaired. Objective evidence of impairment can be defined as one or more events occurring after the initial recognition of the asset that have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists for financial assets using the following criteria:

- Deterioration in payment status;
- Tenant failure;
- Expected future increase in arrears due to change in loan status;
- Breach of loan covenants; and
- Any other information discovered during annual review suggesting that a loss is likely in the short to medium term.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment, and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence of an impairment of loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. This calculation takes into account the Group's experience of default rates, loss emergence periods, the effect of regional movements in house prices based upon a recognised index and adjustments to allow for ultimate forced sales values and realisation costs. The amount of the loss is recognised in the Income Statement.

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.

Impairment losses on debt instruments

At each year end date the Group assesses whether or not there is objective evidence that individual debt instruments are impaired. In determining whether there is any objective evidence of impairment the Group takes into account a number of factors including:

- significant financial difficulties of the issuer or obligor;
- any breach of contract or covenants;
- the granting of any concession or rearrangement of terms;
- the disappearance of an active market;
- any significant downgrade of ratings; and
- any significant reduction in market value.

In some cases a significant adverse change in one of the above factors will cause the Group to determine that there is objective evidence of impairment. In other cases it may not be possible to identify a single event that identifies impairment. The Group may additionally determine that there is impairment where there are a number of factors contributing to that view.

Where the Group determines that there is objective evidence of impairment or that trigger events exist at the year end date, then, in the case of available for sale instruments, the cumulative gain or loss that had been recognised directly in reserves is removed from reserves and recognised in the Income Statement. In the case of held to maturity instruments an appropriate charge is made to the Income Statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be related to an event occurring after the impairment loss was recognised through the Income Statement, the impairment loss shall be reversed, with the amount of the reversal recognised through the Income Statement.

e) 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.

f) Determination of fair value

The Group determines fair values by the three tier valuation hierarchy as defined within IAS 39 and Amendments to IFRS 7, 'Financial Instruments: Disclosures'.

i) 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, NYSE) and broker quotes from Bloomberg and Reuters.

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 on an arm's length basis. 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.

ii) 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, LIBOR yield curve, FX rates, 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 options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

iii) For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. 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.

The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in note 31.

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.

Intangible assets
Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, joint ventures, associates or businesses 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. In accordance with IFRS 3, 'Business Combinations', goodwill is not systematically amortised but is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised in the Income Statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's applicable cash generating units. Each unit is tested at least annually and reviewed for impairment indicators at each reporting date, with a further impairment test performed if indicators deem necessary. The impairment test compares the carrying value of goodwill to the higher of its fair value less costs of sale and its value in use. The value in use calculations are carried out by discounting the future cash flows of the cash generating unit. Future cash flows are based upon approved profit budgets for the next three years (adjusted for non-cash items) and assumed growth thereafter for the next 10 years in line with the Bank of England's long-term target for inflation. The Group estimates the discount rate based on current costs of capital adjusted for the risks inherent in each cash generating unit. A 13-year time horizon has been used to reflect that cash generating units are held for the long-term.

On the sale of a subsidiary undertaking, the profit or loss on sale is calculated after charging or crediting the net book value of any related goodwill. Negative goodwill arising on an acquisition would be recognised directly in the Income Statement.

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 7 years; they are subject to regular impairment reviews. Costs associated with maintaining software are recognised as an expense when incurred.

Other acquired intangible assets

Other acquired intangible assets are capitalised if they can be separately identified from goodwill. Their useful lives are based on the period for which they are expected to generate economic benefits. If there are any signs of a decrease in value the asset will be subject to impairment testing. If there is no foreseeable limit on this period, their life is deemed to be indefinite and the asset tested at each reporting date for impairment.

These 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 20 years.

Property, plant and equipment
Land and buildings comprise mainly branches and offices. All property is stated at valuation less depreciation and plant and equipment is 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.

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:

Buildings	Up to 50 years
Short leasehold properties	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

1. Accounting policies (continued)

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.

Leases

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the Income Statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Foreign currency translation

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

Cash and cash equivalents

For the purposes of the cash flow statement, 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 original maturities of 90 days or less.

Taxation

Tax on the profits 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 equity or items recognised in other comprehensive income, where it is recognised in the Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable income 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

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 has been reliably estimated.

Employee benefits

The Group provides both a defined benefit scheme (closed to new employees 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 immediately in the Statement of Financial Position, net of deferred tax.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by the revised standard, actuarial gains and losses are recognised outside profit or loss and presented in other comprehensive income.

Following the curtailment, any increase in the present value of the liabilities of the defined benefit scheme is expected to arise only from changes in actuarial assumptions surrounding the existing liabilities which would be charged to the Statement of Comprehensive Income. The expected return on the defined benefits scheme's assets and the increase in the scheme's liabilities, arising from the passage of time, are disclosed as a pension finance charge/income. Any resulting actuarial gains or losses, that is gains or losses arising from differences in the expected return on scheme assets compared to the actual return and changes in assumptions, or factors which affect those assumptions, used in measuring the scheme liabilities, are recognised immediately in the Statement of Comprehensive Income.

For defined contribution plans, the contributions are recognised as employee benefit expense 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 judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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.

Pensions

The Group operates a defined benefit pension scheme. Significant judgments (on areas such as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme.

These judgments, which are based upon the Board receiving external advice from the scheme actuaries, are outlined in note 30 to the Accounts.

Impairment losses on loans and advances

The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgment. Provisions are calculated using historic default and loss experience, but require judgment to be exercised in predicting economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time before impairments are identified (emergence period). The most critical estimate is of the level of house prices where a variance of 10% equates to £2.5m of provision. Other sensitivities include the emergence period, where a variance of six months equates to £0.4m, and the loss given default rate, where a 10% variance equates to £0.6m of provision.

Impairment of treasury investments
Treasury investments are regularly reviewed for objective evidence of impairment. In determining whether objective evidence exists, the Group considers, amongst other factors, current market conditions, fair value volatility, appropriateness of valuation techniques and the financial stability of the counterparty.

Effective interest rate
The calculation of an effective interest rate requires the Group to make assumptions around the expected lives of mortgages and the likely levels of early repayment fees (ERFs) to be received. Management regularly reviews these assumptions and compares with actual results.

Were the average lives of the mortgages to increase by 5%, the carrying value of mortgages would change by £1.6m with a corresponding change to income.

Investment properties
The calculation of the fair value of investment properties involves certain judgments around how and when the property is to be sold. These are regularly reviewed by management to ensure they are in line with the future strategy of the Group.

If house prices were to change by 5%, the carrying value of the investment properties would change by £5.6m with a corresponding change to income.

Financial Services Compensation Scheme (FSCS)
Following FSA guidance, the Society provides for an estimate of the management expense levy payable for those years triggered by the reporting date. The amount provided by the Group is based upon the following factors:

- The FSCS' estimate of the total management expense levy;
- The Directors' estimate of the Group's share of qualifying deposits; and
- The Directors' estimate of future interest rates.

The impact of a 1% increase in the estimate of 12 month LIBOR rate would increase the provision by £1.0m and vice versa.

Taxation
Significant estimates are required in determining the provision for corporation tax. There are a number of transactions for which the final tax determination is uncertain at the year end date.

Fair value of derivatives and financial assets
The most reliable fair values of derivative financial instruments and available for sale assets are quoted market prices in an actively traded market. Where there is no active market, valuation techniques are used. Techniques adopted include valuation models used to calculate the present value of expected future cash flows, and options pricing models, if market values are not available. These techniques make use of observable market data and hence fair value estimates can be considered to be reliable. Where inputs are not observable they may be based on historic data. Changes in assumptions used in the models could affect the reported fair value of derivatives and available for sale assets.

Where previously active markets no longer provide prices, other market sources are monitored, such as real-time market information, custodian and independent financial institution valuations, and management judgment is exercised in determining fair values for these or similar instruments.

Basis risk derivatives are valued using discounted cash flow models, using observable market data and will be sensitive to benchmark interest rate curves.

Deferred tax assets
A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of the deferred tax asset is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences and it is necessary for management to evaluate whether the deferred tax asset has arisen due to temporary factors or is instead indicative of a permanent decline in earnings.

Based on its analysis, management has determined that the tax losses held by the Society and various other Group Companies primarily result from the recent economic downturn. The housing and credit market conditions in existence during the UK recession led to increases in credit losses and contracting margins, with higher unemployment levels also leading to higher credit losses. Management has made detailed forecasts of future taxable income in order to determine that profits will be available to offset the deferred tax asset. These projections are based on business plans, future capital requirements and the current economic situation. They include assumptions about the depth and severity of potential further house price depreciation and about the UK economy, including unemployment levels and their related impact on credit losses.

The assumptions surrounding future expected credit losses and increases in the Bank Rate of interest represent the most subjective areas of judgment in management's projections of future taxable profits. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets and it is on this basis that the deferred tax assets have been recognised. Deferred tax has been recognised at 24%, being the rate substantively enacted at the date of the Statement of Financial Position.

Securitisation transactions
In order to determine whether the Society controls a Special Purpose Entity (SPE) or not, the Society has to make judgments about risks and rewards and assess the ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. When assessing whether the Group has to consolidate an SPE it evaluates a range of factors. The following are the prime factors that are considered and the applicable accounting treatment in each case:

- When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Group's Statement of Financial Position;
- When the Group transfers financial assets to an unconsolidated entity and it retains substantially all of the risk and rewards relating to the transferred assets, the transferred assets are recognised in the Group's Statement of Financial Position;
- When the Group transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognised from the Group's Statement of Financial Position; and
- When the Group neither transfers nor retains substantially all the risks and rewards relating to a transferred financial asset and it retains control of the transferred asset, the Group continues to recognise the transferred financial asset to the extent of its continuing involvement in that transferred financial asset. Details of the Group's securitisation activities are given in note 13.

2. Interest receivable and similar income

	Group 2012 £m	Group* 2011 £m	Society 2012 £m	Society* 2011 £m
On loans fully secured on residential property	**127.0**	143.7	**69.4**	75.1
On other loans				
Connected undertakings	**-**	-	**85.3**	101.4
Loans fully secured on land	**63.7**	66.7	**0.6**	-
On investment securities	**15.9**	18.4	**27.7**	30.0
On other liquid assets	**3.0**	1.4	**2.3**	0.6
Net expense on derivative financial instruments	**(28.8)**	(39.5)	**(18.0)**	(24.5)
Total interest income	**180.8**	190.7	**167.3**	182.6
Interest receivable includes:				
Income from fixed income securities	**14.7**	15.8	**14.7**	15.8

Included within interest receivable and similar income is interest accrued on impaired financial assets: Group £4.5m (2010/11: £4.6m) and Society £1.8m (2010/11: £2.1m).
* The comparative figures have been restated to reflect the current year categorisation of net expense on derivative financial instruments.

3. Interest expense and similar charges

	Group 2012 £m	Group* 2011 £m	Society 2012 £m	Society* 2011 £m
On shares held by individuals	**133.7**	155.8	**133.7**	155.8
On deposits from banks and other deposits	**33.9**	32.0	**28.8**	27.1
Net income on derivative financial instruments	**(21.7)**	(31.5)	**(21.7)**	(31.5)
Total interest expense	**145.9**	156.3	**140.8**	151.4

* The comparative figures have been restated to reflect the current year categorisation of net income on derivative financial instruments.

4. Other operating income

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Other operating income includes:				
Rent receivable	**3.8**	3.7	**-**	0.1
Pension fund income (note 30)	**0.7**	0.4	**0.7**	0.4
Other	**(0.1)**	-	**(0.2)**	(0.1)
Total other operating income	**4.4**	4.1	**0.5**	0.4

5. Net realised profits

Net realised profits arise on the sale of treasury instruments. The Society is required to periodically sell a proportion of its liquid assets to prove that they remain liquid. The Society also takes opportunities to realise an improvement in the underlying market value of assets without impacting the core business. By their nature these sources of income are highly variable.

6. Administrative expenses

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Staff costs				
Wages and salaries	**19.8**	19.8	**19.6**	19.5
Social security costs	**1.9**	2.0	**1.9**	2.0
Other pension costs	**1.1**	1.0	**1.1**	1.0
Rental charges payable under operating leases	**0.5**	0.4	**0.5**	0.4
Other administrative expenses	**15.0**	13.2	**8.4**	7.8
	38.3	36.4	**31.5**	30.7
Other administrative expenses include:				
Remuneration of auditors and their associates (excluding VAT)				
Audit of these financial statements	**0.1**	0.1	**0.1**	0.1
Audit of the subsidiary financial statements	**0.1**	0.1	**-**	-

7. Employee numbers

	Group 2012	Group 2011	Society 2012	Society 2011
The average number of employees employed throughout the year was:				
Full time	**623**	614	**612**	598
Part time	**129**	156	**128**	149
	752	770	**740**	747
Building Society				
Central administration	**471**	468	**471**	469
Branches	**269**	278	**269**	278
Subsidiaries	**12**	24	**-**	-
	752	770	**740**	747

8. Directors' emoluments

Total Directors' emoluments amounted to £1.706m (2010/11 restated: £1.657m). Full details are given in the Directors' Remuneration Report on pages 28 to 31.

9. Taxation

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
UK corporation tax at 26% (2010/11: 28%)	**(1.0)**	-	**(1.0)**	-
Corporation tax – adjustment in respect of prior years	**-**	0.9	**(0.3)**	0.8
Total current tax	**(1.0)**	0.9	**(1.3)**	0.8
Deferred tax				
Current year	**(0.2)**	(3.4)	**(0.3)**	(0.5)
Adjustment in respect of prior periods	**0.9**	(0.9)	**(1.3)**	(5.6)
Tax on loss on ordinary activities	**(0.3)**	(3.4)	**(2.9)**	(5.3)

UK corporation tax has been calculated at the applicable prevailing rate.

9. Taxation (continued)

Further information about deferred tax is presented in note 20.

The tax credit is reconciled to the loss before tax in the Income Statement as follows:

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
Loss before tax	**(9.5)**	(13.8)	**(9.7)**	(5.9)
Loss before tax multiplied by the UK standard rate of tax of 26% (2010/11: 28%)	**(2.5)**	(3.8)	**(2.5)**	(1.6)
Effects of:				
Expenses not deductible for tax purposes	**0.3**	(0.4)	**0.3**	0.5
Changes to tax rate	**1.4**	1.3	**0.9**	0.7
Non taxable income	**-**	(0.1)	**-**	(0.1)
Adjustment in respect of prior years	**0.9**	-	**(1.6)**	(4.8)
Revaluation	**(0.4)**	(0.4)	**-**	-
Tax credit	**(0.3)**	(3.4)	**(2.9)**	(5.3)

10. Cash and balances with the Bank of England

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
Cash in hand	**2.8**	2.0	**2.8**	2.0
Mandatory reserve with the Bank of England	**5.5**	5.8	**5.5**	5.8
Other deposits with the Bank of England	**760.9**	377.6	**760.9**	377.6
	769.2	385.4	**769.2**	385.4

Mandatory reserve deposits are not available for use in the Group's day to day operations. Cash in hand and the mandatory reserve with the Bank of England are non-interest bearing.

11. Investment securities

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
Investment securities: available for sale				
listed	**717.0**	853.5	**717.0**	853.5
unlisted	**207.5**	65.1	**207.5**	65.1
Investment securities: held to maturity				
listed	**-**	-	**1,131.9**	1,165.4
Total investment securities	**924.5**	918.6	**2,056.4**	2,084.0

In accordance with IAS 39, available for sale investment securities are stated at fair value and held to maturity investment securities are stated at amortised cost. Gains/(losses) on disposal of investment securities are disclosed as net realised profits on the face of the Income Statement.

Included within loans and advances to customers are £136.4m commercial and £976.5m residential mortgage balances which have been sold to bankruptcy remote Special Purpose Entities (SPEs), with the associated loan notes retained by West Bromwich Building Society. The loan notes have been classed as held to maturity investment securities as the Society has the positive intention and ability to hold them to maturity. The prior year analysis has been restated to reflect this categorisation.

11. Investment securities (continued)

The movement in investment securities may be summarised as follows:

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
At beginning of year	**918.6**	1,449.2	**2,084.0**	2,630.5
Additions	**2,267.7**	3,252.9	**2,267.7**	3,252.9
Disposals (sale and redemption)	**(2,272.3)**	(3,781.9)	**(2,305.8)**	(3,797.8)
Gains/(Losses) from changes in fair value	**10.5**	(1.6)	**10.5**	(1.6)
At end of year	**924.5**	918.6	**2,056.4**	2,084.0

The Directors consider that the primary purpose for holding investment securities is prudential. The investment securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities.

At 31 March 2012, £207.6m (2010/11: £210.3m) of investment securities and £1.4m (2010/11: £0.3m) of cash were pledged as collateral under sale and repurchase agreements. All sale and repurchase transactions are conducted in line with market standard terms and conditions as defined in ISMA PSA Global Master Repurchase Agreements.

12. Derivative financial instruments

A description of the derivative financial instruments used by the Group for hedging purposes is given in note 31. The fair values of derivative instruments held at 31 March 2012 are set out below. The other derivatives held for hedging are held for economic hedging purposes.

Group	**Notional principal amount 2012 £m**	**Fair values Assets 2012 £m**	**Fair values Liabilities 2012 £m**
Derivatives held for hedging			
Derivatives designated as fair value hedges	**1,821.3**	**19.1**	**(87.2)**
Other derivatives held for hedging	**547.8**	**45.4**	**(20.6)**
Total derivative assets/(liabilities) held for hedging	**2,369.1**	**64.5**	**(107.8)**

Society	**Notional principal amount 2012 £m**	**Fair values Assets 2012 £m**	**Fair values Liabilities 2012 £m**
Derivatives held for hedging			
Derivatives designated as fair value hedges	**1,671.2**	**19.1**	**(60.1)**
Other derivatives held for hedging	**640.5**	**62.6**	**(31.4)**
Total derivative assets/(liabilities) held for hedging	**2,311.7**	**81.7**	**(91.5)**

Group	Notional principal amount 2011 £m	Fair values Assets 2011 £m	Fair values Liabilities 2011 £m
Derivatives held for hedging			
Derivatives designated as fair value hedges	2,476.2	27.4	(58.7)
Derivatives designated as cash flow hedges	10.4	2.9	-
Other derivatives held for hedging	555.3	43.1	(21.1)
Total derivative assets/(liabilities) held for hedging	3,041.9	73.4	(79.8)

Society	Notional principal amount 2011 £m	Fair values Assets 2011 £m	Fair values Liabilities 2011 £m
Derivatives held for hedging			
Derivatives designated as fair value hedges	2,378.1	27.5	(39.1)
Derivatives designated as cash flow hedges	10.4	2.9	-
Other derivatives held for hedging	362.9	56.4	(27.4)
Total derivative assets/(liabilities) held for hedging	2,751.4	86.8	(66.5)

At 31 March 2012, £49.4m (2010/11: £27.5m) of cash was pledged as collateral against derivative financial instruments.

13. Loans and advances to customers

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Loans and receivables				
Loans fully secured on residential property	**4,319.9**	4,692.5	**1,885.4**	2,102.6
Other loans				
Loans fully secured on land	**1,062.8**	1,193.7	**30.2**	26.4
Other loans	**0.2**	0.2	**-**	-
	5,382.9	5,886.4	**1,915.6**	2,129.0
At fair value through profit or loss				
Other loans				
Loans fully secured on land (note 28)	**89.4**	84.9	**-**	-
	5,472.3	5,971.3	**1,915.6**	2,129.0
Less: impairment provisions	**(98.7)**	(91.2)	**(19.3)**	(17.6)
	5,373.6	5,880.1	**1,896.3**	2,111.4

Certain commercial mortgage balances are used to secure external funding as follows:

Group	Assets pledged 2012 £m	Secured funding 2012 £m	Assets pledged 2011 £m	Secured funding 2011 £m
Securitisations	**262.8**	**225.4**	288.0	277.5

The net profit on loans and advances which are designated as fair value through profit and loss was £nil (2010/11: £nil).

Included within loans and advances to customers are £262.8m (2010/11: £288.0m) of commercial mortgage balances that the Group has sold to bankruptcy remote special purpose entities (SPEs). The purchase price paid for these commercial mortgages is dependent upon their future performance within the SPEs. The SPEs have been funded by issuing commercial mortgage backed securities (MBSs).

The Group has made subordinated loans to the SPEs to provide some level of credit enhancement to the MBSs. In future periods the Group will earn interest income on the subordinated loans and fees for managing the loans. The Group will earn deferred consideration once the cash flows generated by the SPEs have been used to pay interest and capital to the holders of the MBSs. Since the Group maintains substantially all of the risks (key risk being an exposure to credit risk through the subordinated loan agreements) and rewards emanating from the commercial mortgages, they have been retained on the Group's Statement of Financial Position in accordance with IAS 39. A further £136.4m commercial and £976.5m residential mortgage balances have been sold to bankruptcy remote SPEs where the loan notes have been retained by West Bromwich Building Society.

14. Allowance for losses on loans and advances

Group	Loans fully secured on residential property Individual £m	Collective £m	Loans fully secured on land Individual £m	Collective £m	Total Individual £m	Collective £m	Total £m
At 1 April 2011	29.1	9.8	43.2	9.1	72.3	18.9	**91.2**
Amounts written off	(6.1)	-	(10.4)	-	(16.5)	-	**(16.5)**
Charge/(Credit) for the year comprising:							
Provision/(Release) for loan impairment	9.9	(0.3)	(0.3)	3.1	9.6	2.8	**12.4**
Provision in excess of the securitisation first loss	-	-	11.1	2.4	11.1	2.4	**13.5**
Reduction in carrying value of debt securities in issue	-	-	(11.1)	(2.4)	(11.1)	(2.4)	**(13.5)**
Adjustments to provisions resulting from recoveries	(1.9)	-	-	-	(1.9)	-	**(1.9)**
Charge/(Credit) for the year	8.0	(0.3)	(0.3)	3.1	7.7	2.8	**10.5**
Non-recourse finance on securitised advances	-	-	11.1	2.4	11.1	2.4	**13.5**
At 31 March 2012	**31.0**	**9.5**	**43.6**	**14.6**	**74.6**	**24.1**	**98.7**

Included within loans fully secured on residential property are loans originated through the commercial division. At 31 March 2012, the provision against these loans totalled £9.2m (2010/11: £8.6m), with a net charge for the year of £3.4m (2010/11: net release of £2.9m). The total provision balance relating to the commercial division is £67.4m (2010/11: £60.9m), with a charge for the year of £6.2m (2010/11: £8.7m).

The charge for the year includes impairments of £13.5m against loans in securitised entities (Sandwell Commercial Finance No. 1 Plc: £5.3m and Sandwell Commercial Finance No. 2 Plc: £8.2m). The loss from these impairments is borne by the external loan note holders as it exceeds the first loss exposure held by the Group. The carrying value of the external loan notes has been reduced by an equivalent amount thus reducing the charge for impairment losses on loans and advances on the face of the Income Statement.

Society	Loans fully secured on residential property Individual £m	Collective £m	Loans fully secured on land Individual £m	Collective £m	Total Individual £m	Collective £m	Total £m
At 1 April 2011	12.0	5.6	-	-	12.0	5.6	**17.6**
Amounts written off	(1.5)	-	-	-	(1.5)	-	**(1.5)**
Charge for the year comprising:							
Provision for loan impairment	3.0	1.3	-	-	3.0	1.3	**4.3**
Adjustments to provisions resulting from recoveries	(1.1)	-	-	-	(1.1)	-	**(1.1)**
Charge for the year	1.9	1.3	-	-	1.9	1.3	**3.2**
At 31 March 2012	**12.4**	**6.9**	**-**	**-**	**12.4**	**6.9**	**19.3**

Group	Loans fully secured on residential property Individual £m	Collective £m	Loans fully secured on land Individual £m	Collective £m	Total Individual £m	Collective £m	Total £m
At 1 April 2010	33.4	5.2	32.2	13.2	65.6	18.4	84.0
Amounts written off	(4.9)	-	(4.7)	-	(9.6)	-	(9.6)
Charge/(Credit) for the year comprising:							
Provision/(Release) for loan impairment	2.2	4.6	15.7	(4.1)	17.9	0.5	18.4
Adjustments to provisions resulting from recoveries	(1.6)	-	-	-	(1.6)	-	(1.6)
Charge/(Credit) for the year	0.6	4.6	15.7	(4.1)	16.3	0.5	16.8
At 31 March 2011	29.1	9.8	43.2	9.1	72.3	18.9	91.2
Society							
At 1 April 2010	11.8	0.6	-	-	11.8	0.6	12.4
Amounts written off	(1.1)	-	-	-	(1.1)	-	(1.1)
Charge for the year comprising:							
Provision for loan impairment	2.1	5.0	-	-	2.1	5.0	7.1
Adjustments to provisions resulting from recoveries	(0.8)	-	-	-	(0.8)	-	(0.8)
Charge for the year	1.3	5.0	-	-	1.3	5.0	6.3
At 31 March 2011	12.0	5.6	-	-	12.0	5.6	17.6

15. Investments

a) Subsidiary undertakings

	Society 2012 £m	Society 2011 £m
Shares held in subsidiary undertakings	**0.6**	0.6
Loans to subsidiary undertakings	**2,274.1**	2,497.7
	2,274.7	2,498.3

During the prior year the Society sold its interest in Mortgage Force Limited which resulted in a write off of the investment carrying value of £0.6m.

Shares in subsidiary undertakings are held at cost less impairment. Investments in subsidiary undertakings are financial fixed assets. The net movement in loans to subsidiary undertakings during the year is as follows:

	Society £m
At 1 April 2011	2,497.7
Decrease in loans to subsidiaries	(223.6)
At 31 March 2012	**2,274.1**

All subsidiary loans are provided at open market rates.

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	Hold and dispose of debts secured on land and lend money on the security of land	Ordinary £1 shares	100%
West Bromwich Commercial Limited	Commercial lending	Ordinary £1 shares	100%
WBBS Computer Finance Limited	Leasing and licensing computer equipment	Ordinary £1 shares	100%
CL Mortgages Limited (1)	Hold and dispose of debts secured on land and lend money on the security of land	Ordinary £1 shares	100%
West Bromwich Homes Limited	Investment in property for rental	Ordinary £1 shares	100%
West Bromwich Financial Planning Limited	Financial services product vendor	Ordinary £1 shares	100%
Insignia Finance Limited	Second charge lending	Ordinary £500 shares	100%
White Label Lending Limited (2)	Second charge lending	Ordinary £1 shares	100%
Millinet Limited (3)	Hold investments in loan notes secured on commercial mortgage portfolios	Ordinary £1 shares	100%

(1) The entire share capital of CL Mortgages Limited is held by West Bromwich Mortgage Company Limited.
(2) The entire share capital of White Label Lending Limited is held by Insignia Finance Limited.
(3) The entire share capital of Millinet Limited is held by West Bromwich Commercial Limited.

Securitisation entities
The results of the following securitisation entities are consolidated into the results of the Group under the rules and guidance of Standing Interpretations Committee (SIC) 12:

Name	Country of incorporation	Principal activity
Sandwell Commercial Finance No.1 Plc	United Kingdom	Securitisation entity
Sandwell Finance Holdings Limited	United Kingdom	Holding company
Sandwell Commercial Finance No.2 Plc	United Kingdom	Securitisation entity
Hawthorn Hold Co Limited	United Kingdom	Holding company
Hawthorn Asset Co Limited	United Kingdom	Securitisation entity
Hawthorn Finance Limited	Jersey	Securitisation entity
Sandwell Commercial Finance No.3 Limited	Jersey	Securitisation entity

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.

The assets and liabilities within Sandwell Commercial Finance No.1 Plc have been accounted for using the fair value option available under IAS 39.

15. Investments (continued)

b) Disposal of subsidiary

During the prior year the Group disposed of its entire holding in Mortgage Force Limited for a total consideration of £1. The results and loss arising from this sale were disclosed as discontinued in the Income Statement for the year ended 31 March 2011.

An analysis of the contribution made by Mortgage Force and the impact of the sale of the subsidiary is shown in the table below:

	2011 £m
Fees and commissions receivable	0.5
Fees and commissions payable	(0.4)
Other operating income	0.8
Total operating income	0.9
Administrative expenses	(0.2)
Impairment of investments	(1.4)
Loss before tax	(0.7)
Taxation	-
Loss for the financial year	(0.7)

An analysis of the Mortgage Force Limited cash flows included within the Group Statement of Cash Flows is shown in the table below:

	2011 £m
Net cash flows from operating activities	(0.7)
Net cash flows from investing activities	0.7
Net cash flows from discontinued activities	-

16. Goodwill

	Group 2012 £m	Group 2011 £m
Cost		
At beginning of year	**0.6**	7.9
Amounts written off	**-**	(7.3)
At end of year	**0.6**	0.6
Aggregate impairment		
At beginning of year	**-**	7.3
Amounts written off	**-**	(7.3)
At end of year	**-**	-
Net book value at end of year	**0.6**	0.6

The goodwill has been assessed as having an indefinite life. In accordance with IAS 38, 'Intangible Assets', the Group carries out an annual impairment test in relation to goodwill. When assessing the recoverable amount of goodwill, the Group allocates the goodwill to the lowest cash generating unit (CGU) within the Group.

The amounts written off in the previous year relate to the disposal of Mortgage Force Limited.

The recoverable amount of the remaining CGU (Insignia) has been calculated with reference to future earnings and value in use. The calculations incorporate cash flow projections from the three year business plan approved by the Group Board and cash flow forecasts for the following 10 years, reflecting the enduring nature of the business concerned. The long term growth rates of 3.0% (2010/11: 3.0%) are based upon management's expectations of long term GDP growth over the forecast period. The pre-tax rate used to discount projected cash flows is 12.5% (2010/11: 12.5%), reflecting management's required return from the CGU.

17. Intangible assets

Group and Society	**Computer software 2012 £m**	Computer software 2011 £m
Cost		
At beginning of year	**13.3**	11.4
Additions	**2.2**	2.1
Disposals	**(1.7)**	(0.2)
At end of year	**13.8**	13.3
Aggregate amortisation		
At beginning of year	**6.7**	4.8
Charge for the year	**1.9**	1.9
Disposals	**(1.7)**	-
At end of year	**6.9**	6.7
Net book value at end of year	**6.9**	6.6
Net book value at beginning of year	**6.6**	6.6

18. Investment properties

	Group 2012 £m	Group 2011 £m
Valuation		
At beginning of year	**113.7**	116.0
Additions	**-**	0.3
Disposals	**-**	(0.7)
Net losses from fair value adjustments	**(1.0)**	(1.9)
At end of year	**112.7**	113.7

A national firm of specialist residential valuers, e.surv Limited, has carried out a valuation review of the residential investment properties held by West Bromwich Homes. This review involved a physical 'drive by' inspection of a sample of approximately 10% of the total portfolio, together with a review of desktop market value assessments and output from an automated valuation model of all remaining properties on an individual basis.

e.surv Limited confirms that, based on the valuation output reviewed, it is satisfied that the overall valuation of the portfolio at 31 March 2012 is a fair reflection of market value. The valuation was prepared in accordance with the Valuation Standards issued by the Royal Institution of Chartered Surveyors (known as the 'Red Book'), in particular UK Practice Statement 1. Market value is as defined in Practice Statement 3.2.

If the land and buildings were carried at cost, the carrying amount would be £88.9m (2010/11: £88.9m).

The Group leases investment properties to non-commercial individuals for a contract period of up to 18 months. The future minimum lease receipts under non-cancellable operating leases that end within 12 months are £2.3m (2010/11: £2.4m). The Group has not recognised any contingent rent in the period (2010/11: £nil).

19. Property, plant and equipment

Group	Land and buildings Freehold £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation					
At 1 April 2011	7.8	-	1.0	14.8	**23.6**
Additions	-	-	-	8.0	**8.0**
Disposals	-	-	(0.3)	(4.3)	**(4.6)**
At 31 March 2012	**7.8**	**-**	**0.7**	**18.5**	**27.0**
Accumulated depreciation					
At 1 April 2011	0.7	-	0.9	9.4	**11.0**
Charge for the year	0.8	-	-	2.0	**2.8**
Disposals	-	-	(0.3)	(4.1)	**(4.4)**
At 31 March 2012	**1.5**	**-**	**0.6**	**7.3**	**9.4**
Net book value					
At 31 March 2012	**6.3**	**-**	**0.1**	**11.2**	**17.6**

Group	Land and buildings Freehold £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation					
At 1 April 2010	7.4	1.8	1.0	13.2	23.4
Additions	-	-	-	2.3	2.3
Transfers	1.8	(1.8)	-	-	-
Disposals	(1.4)	-	-	(0.7)	(2.1)
At 31 March 2011	7.8	-	1.0	14.8	23.6
Accumulated depreciation					
At 1 April 2010	-	-	0.9	7.9	8.8
Transfers	0.5	(0.5)	-	-	-
Charge for the year	0.2	0.5	-	2.4	3.1
Disposals	-	-	-	(0.9)	(0.9)
At 31 March 2011	0.7	-	0.9	9.4	11.0
Net book value					
At 31 March 2011	7.1	-	0.1	5.4	12.6

19. Property, plant and equipment (continued)

Society	Land and buildings Freehold £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation					
At 1 April 2011	7.8	-	1.0	14.6	**23.4**
Additions	-	-	-	8.0	**8.0**
Disposals	-	-	(0.3)	(4.3)	**(4.6)**
At 31 March 2012	**7.8**	**-**	**0.7**	**18.3**	**26.8**
Accumulated depreciation					
At 1 April 2011	0.7	-	0.9	9.3	**10.9**
Charge for the year	0.8	-	-	1.9	**2.7**
Disposals	-	-	(0.3)	(4.1)	**(4.4)**
At 31 March 2012	**1.5**	**-**	**0.6**	**7.1**	**9.2**
Net book value					
At 31 March 2012	**6.3**	**-**	**0.1**	**11.2**	**17.6**

Society	Land and buildings Freehold £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation					
At 1 April 2010	7.4	1.8	1.0	12.9	23.1
Additions	-	-	-	2.3	2.3
Transfers	1.8	(1.8)	-	-	-
Disposals	(1.4)	-	-	(0.6)	(2.0)
At 31 March 2011	7.8	-	1.0	14.6	23.4
Accumulated depreciation					
At 1 April 2010	-	-	0.9	7.7	8.6
Charge for the year	0.2	0.5	-	2.4	3.1
Transfers	0.5	(0.5)	-	-	-
Disposals	-	-	-	(0.8)	(0.8)
At 31 March 2011	0.7	-	0.9	9.3	10.9
Net book value					
At 31 March 2011	7.1	-	0.1	5.3	12.5

The Group's freehold branch properties were revalued at 31 March 2010 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 have been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. If the land and buildings were carried at cost, the carrying amount would be £4.5m (2010/11: £4.5m).

20. Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 24% (2010/11: 26%). The movement on the deferred tax account is as follows:

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
At beginning of year	**17.6**	13.2	**9.5**	3.2
Current year Income Statement credit	**0.2**	3.4	**0.3**	0.5
Amount recognised directly in equity	**0.6**	0.1	**0.6**	0.2
Adjustments in respect of prior years	**(0.9)**	0.9	**1.3**	5.6
At end of year	**17.5**	17.6	**11.7**	9.5

Deferred tax assets and liabilities are attributable to the following items:

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
Deferred tax assets				
Accelerated tax depreciation	**3.1**	2.7	**3.1**	2.6
Carried forward tax losses	**17.0**	16.5	**7.4**	5.7
Pensions and other post retirement benefits	**0.2**	-	**0.2**	-
Other temporary differences	**5.4**	4.6	**1.5**	2.9
	25.7	23.8	**12.2**	11.2
Deferred tax liabilities				
Property valuations	**(3.8)**	(4.6)	**(0.4)**	(0.5)
Pensions and other post retirement benefits	**-**	(0.5)	**-**	(0.5)
Other temporary differences	**(4.4)**	(1.1)	**(0.1)**	(0.7)
	(8.2)	(6.2)	**(0.5)**	(1.7)

The deferred tax (charge)/credit in the Income Statement comprises the following temporary differences:

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
Accelerated tax depreciation	**0.4**	2.3	**0.5**	2.4
Other provisions	**(2.4)**	0.5	**(0.7)**	(0.7)
Carried forward tax losses	**0.6**	0.4	**1.8**	4.4
Property valuations	**0.7**	1.1	**-**	-
	(0.7)	4.3	**1.6**	6.1

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 recoverable against future taxable profits (as projected in the latest Strategic Plan) within ten years. The assumptions surrounding future expected credit losses and increases in the Bank Rate of interest represent the most subjective areas of judgment in management's projections of future taxable profits. The deferred tax assets have not been discounted.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to do so.

Deferred tax assets and liabilities have been calculated at 24% (2010/11: 26%), being the rate substantively enacted at the Statement of Financial Position date. The rate of corporation tax will be further reduced by 1% per annum to 22% by 1 April 2014. As the further reductions were not substantively enacted by 31 March 2012, the impact of the anticipated rate changes is not reflected in the tax provisions reported in these accounts. If the deferred tax assets and liabilities of the Group were to reverse after 1 April 2014, the effect of the changes from 24% to 22% would be to reduce the net deferred tax asset by £1.5m. To the extent that the deferred tax reverses more quickly than this, the impact of the further rate changes on the net deferred tax asset will be reduced.

21. Trade and other receivables

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Prepayments and accrued income	**3.3**	2.5	**3.3**	2.5
Other	**1.0**	3.3	**0.3**	0.5
	4.3	5.8	**3.6**	3.0

22. Shares

Group and Society	2012 £m	2011 £m
Held by individuals	**5,671.7**	5,710.7
Other shares	**1.1**	1.2
	5,672.8	5,711.9

23. Debt securities in issue

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
EURO medium term notes	**-**	13.2	**-**	13.2
GBP medium term notes	**3.0**	3.0	**3.0**	3.0
Certificates of deposit	**4.0**	9.0	**4.0**	9.0
Other debt securities	**695.0**	722.6	**695.0**	722.6
Non-recourse finance on securitised advances	**225.4**	277.5	**-**	-
	927.4	1,025.3	**702.0**	747.8

The non-recourse finance comprises mortgage backed floating rate notes (the Notes) secured over a portfolio of mortgage loans secured by first charges over residential and commercial properties in the United Kingdom (see note 13). Prior to redemption of the Notes on the final interest payment date, the Notes will be subject to mandatory and/or optional redemption, in certain circumstances, on each interest payment date. See note 28 for details of assets held at fair value through profit and loss.

24. Trade and other payables

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Accruals	**9.0**	4.4	**6.7**	4.4
Other creditors	**7.6**	10.5	**5.0**	5.7
Income tax	**3.3**	3.7	**3.3**	3.7
Amounts due to subsidiary undertakings	**-**	-	**0.3**	0.3
	19.9	18.6	**15.3**	14.1

25. Provisions for liabilities

	FSCS 2012 £m	Onerous contracts 2012 £m	Total 2012 £m	FSCS 2011 £m	Onerous contracts 2011 £m	Total 2011 £m
Group and Society						
At beginning of year	**4.6**	**2.2**	**6.8**	4.7	1.3	6.0
Utilised in the year	**(2.3)**	**(0.7)**	**(3.0)**	(2.3)	(0.6)	(2.9)
Charge/(Release) for the year	**2.9**	**(0.3)**	**2.6**	2.2	1.5	3.7
At end of year	**5.2**	**1.2**	**6.4**	4.6	2.2	6.8

Financial Services Compensation Scheme (FSCS)

In common with all regulated UK deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The FSCS has met, or will meet, the claims by way of loans received from HM Treasury (HMT). The terms of these loans are interest only for the first three years, and the FSCS seeks to recover the interest cost, together with ongoing management expenses, through levies on member firms over this period. Subsequently, should there be insufficient funds from the realisation of the failed banks' assets to fully extinguish the FSCS' loans from HMT, this may result in the FSCS raising a compensation levy on member firms. The three year initial term expired in September 2011 and, in March 2012, the FSCS and HMT agreed terms for refinancing the loans.

The Society FSCS provision reflects market participation up to the reporting date. The £5.2m provision relates to the estimated management expense levy for the scheme years 2011/12 and 2012/13. This amount was calculated on the basis of the Society's current share of protected deposits taking into account the FSA's estimate of total management expense levies for each scheme year.

The management expenses levy for scheme year 2011/12 was calculated using the agreed funding rate of 12 month LIBOR + 30bps. Following the expiry of the initial three year fixed interest term, extensive negotiations between HMT and FSCS have resulted in an agreed funding rate of 12 month LIBOR + 100bps which is the rate that will be charged for the HMT loans for the period from 1 April 2012, on which the management expenses levy for scheme year 2012/13 has been based.

In addition, the agreement by the FSCS not to charge Compensation Cost Levy for three years is at an end and there exists the possibility that compensation for losses suffered could be levied in the scheme year commencing 1 April 2013

The provision does not include any estimate for management expense levies for future scheme years or for compensation levies which may arise.

Onerous contracts

The provision for onerous contracts covers the loss anticipated in connection with future lease expenses from non-cancellable lease commitments in branches that the Society has, as part of its branch restructure, decided are no longer required. The provision should be utilised £0.5m in year 1 and £0.7m in years 2 to 5.

26. Subscribed capital

Group and Society	2012 £m	2011 £m
Permanent interest bearing shares	**74.9**	74.9

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 holders of profit participating deferred shares (PPDS) with which the PIBS rate pari-passu, and the claims of members holding shares as to principal and interest. The holders of PIBS are not entitled to any share in any final surplus upon winding up or dissolution of the Society.

With respect to future interest payments, as a condition of the PPDS (see note 27), the Society has undertaken to pay an amount which, when annualised, represents the lower of: 6.15% of the outstanding principal amount of the PIBS and the dividend yield attributable to the PPDS with respect to the prior financial year ending 31 March whose payment is at the discretion of the Society.

27. Profit participating deferred shares

Group and Society	2012 £m	2011 £m
Book value		
Nominal value	**182.5**	182.5
Cumulative fair value adjustments at date of transition	**3.8**	3.8
Capitalised issue costs	**(2.2)**	(2.2)
	184.1	184.1
Cumulative reserve deficit		
At beginning of year	**(6.8)**	(4.2)
Share of loss for the financial year	**(2.3)**	(2.6)
	(9.1)	(6.8)
Net value at end of year	**175.0**	177.3

The profit participating deferred shares (PPDS) are entitled to receive a distribution, at the discretion of the Society, of up to 25% of the Group's post-tax profits in the future (calculated prior to payment of the PPDS dividend). No such distribution may be made if the cumulative reserves are in deficit.

28. Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are valued at fair value through profit or loss when this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The 'Fair Value Option' is used by the Group where financial assets or liabilities would otherwise be measured at amortised cost, the associated derivatives used to economically hedge the risk are held at fair value, and it is not practical to apply hedge accounting. The table below shows the carrying value of financial assets and liabilities that upon initial recognition, or at 1 April 2005 on the adoption of IAS 39, were valued at fair value through profit or loss, and the net gains or losses on these instruments:

	Group 2012 £m	Group 2011 £m
Financial assets at fair value through profit or loss		
Loans fully secured on land		
Carrying value at 31 March	**89.4**	84.9
Net losses in the year (Included in interest expense and similar charges)	**(0.1)**	(2.0)
Financial liabilities at fair value through profit or loss		
Non-recourse finance on securitised advances		
Carrying value at 31 March	**83.6**	99.7
Net gains in the year (included in interest expense and similar charges)	**-**	-
Derivative financial instruments		
Carrying value at 31 March	**(4.8)**	(4.9)
Net gains in the year (included in interest expense and similar charges)	**0.1**	2.0

29. Tax effects relating to each component of other comprehensive income

Group and Society	**Before tax amount 2012 £m**	**Tax (expense) /benefit 2012 £m**	**Net of tax amount 2012 £m**
Available for sale financial assets	**5.3**	**(1.5)**	**3.8**
Cash flow hedges	**0.1**	-	**0.1**
Actuarial loss on retirement benefit obligations	**(4.3)**	**1.0**	**(3.3)**
Other comprehensive income	**1.1**	**(0.5)**	**0.6**

Group and Society	Before tax amount 2011 £m	Tax benefit/ (expense) 2011 £m	Net of tax amount 2011 £m
Available for sale financial assets	(1.6)	1.3	(0.3)
Cash flow hedges	(0.3)	-	(0.3)
Actuarial gain on retirement benefit obligations	0.7	(0.2)	0.5
Other comprehensive income	(1.2)	1.1	(0.1)

30. Retirement benefit obligations

Amounts recognised in the Statement of Financial Position:

Group and Society	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Defined benefit pension scheme obligation/(asset)	**0.4**	(1.8)	2.0	1.6	5.1

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 some unregistered arrangements in place in respect of former Directors. The financial effect of these arrangements is included in this note.

The results of a formal actuarial valuation at 31 March 2010 carried out by the appointed actuary to the scheme were updated to the accounting date by an independent qualified actuary in accordance with IAS 19, 'Employee benefits'.

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.

The expected rate of return at 31 March 2012 was 5.3% pa (2010/11: 6.2% pa). This rate is derived by taking the weighted average of the long term expected rate of return that is expected on each of the asset classes that the scheme will invest in, based on the allocation to each asset class at 31 March 2012. As in the prior year, administrative expenses have been allowed for by way of a 2% loading to the defined benefit obligation.

The estimated amount of Society contributions expected to be paid to the scheme during 2012/13 is £1.3m (2011/12: £1.4m actual).

The key assumptions used by the actuary in the updated calculation were:

Group and Society	2012	2011	2010	2009	2008
Rate of increase in salaries	**-**	-	-	-	5.50%
Pension increases in payment (RPI capped at 5%)	**3.20%**	3.40%	3.60%	3.20%	3.40%
Pension increases in payment (RPI capped at 2.5%)	**-**	-	2.40%	2.30%	2.30%
Pension increases in payment (CPI capped at 2.5%)	**1.90%**	2.20%	-	-	-
Discount rate	**4.80%**	5.40%	5.60%	7.00%	6.30%
Expected return on assets	**5.30%**	6.20%	6.20%	6.00%	6.50%
Life expectancy of male aged 65 at year end date	**22.2**	22.1	22.8	22.7	22.6
Life expectancy of female aged 65 at year end date	**24.5**	24.4	24.8	24.6	24.5
Life expectancy of male aged 65 at year end date plus 20 years	**23.7**	23.6	24.7	24.3	-
Life expectancy of female aged 65 at year end date plus 20 years	**26.0**	26.0	25.8	25.6	-

30. Retirement benefit obligations (continued)

The amounts recognised in the Statement of Financial Position are as follows:

Group and Society	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded obligations	**79.1**	72.1	70.7	49.1	63.0
Present value of unfunded obligations	**0.8**	0.7	0.8	0.6	0.6
	79.9	72.8	71.5	49.7	63.6
Fair value of scheme assets	**(79.5)**	(74.6)	(69.5)	(48.1)	(58.5)
Net liability/(asset) in the Statement of Financial Position	**0.4**	(1.8)	2.0	1.6	5.1

The amounts recognised in the Income Statement are as follows:

Group and Society	Projected 2013 £m	Actual 2012 £m	Actual 2011 £m	Actual 2010 £m
Current service cost	-	**-**	-	0.4
Interest cost	3.8	**3.9**	3.9	3.4
Expected return on plan assets	(4.2)	**(4.6)**	(4.3)	(2.9)
Total (income)/expense	(0.4)	**(0.7)**	(0.4)	0.9

Current service cost is shown in administrative expenses whilst interest cost and expected return on plan assets are disclosed as other operating income. The actual return on scheme assets was £5.2m (2010/11: £5.2m).

Change in benefit obligations

Group and Society	2012 £m	2011 £m	2010 £m
Benefit obligations at beginning of year	**72.8**	71.5	49.7
Current service cost	**-**	-	0.4
Interest cost	**3.9**	3.9	3.4
Actuarial losses	**4.9**	0.2	19.9
Benefits paid	**(1.7)**	(2.8)	(1.9)
Benefit obligations at end of year	**79.9**	72.8	71.5

Change in scheme assets

Group and Society	2012 £m	2011 £m	2010 £m
Fair value of scheme assets at beginning of year	**74.6**	69.5	48.1
Expected return on scheme assets	**4.6**	4.3	2.9
Actuarial gains	**0.6**	0.9	13.1
Contribution by employer	**1.4**	2.7	7.3
Benefits paid	**(1.7)**	(2.8)	(1.9)
Fair value of scheme assets at end of year	**79.5**	74.6	69.5

The amount recognised outside profit and loss in the Statement of Comprehensive Income for 2011/12 is an actuarial loss of £4.3m (2010/11: gain of £0.7m). The cumulative amount recognised outside profit and loss at 31 March 2012 is an actuarial loss of £22.5m.

30. Retirement benefit obligations (continued)

History of experience gains and losses

Group and Society	2012	2011	2010	2009	2008
Experience gains/(losses) on scheme assets:					
amount (£m)	**0.6**	0.9	13.1	(15.7)	(6.3)
percentage of scheme assets	**1%**	1%	19%	(33%)	(11%)
Experience losses/(gains) on scheme liabilities:					
amount (£m)	**2.1**	2.0	0.5	-	(0.7)
percentage of scheme liabilities	**3%**	3%	1%	-	(1%)

Scheme assets

The assets in the scheme and their expected rates of return at 31 March were:

Group and Society	Long-term rate of return expected 2012 %	Value 2012 £m	Long-term rate of return expected 2011 %	Value 2011 £m	Long-term rate of return expected 2010 %	Value 2010 £m
Equities	**7.1**	**30.3**	7.6	34.4	7.8	35.6
Bonds	**4.7**	**4.7**	5.3	4.9	5.4	4.9
Gilts	**3.1**	**31.6**	4.1	26.3	4.3	20.7
Tactical asset allocation	**7.1**	**3.1**	7.0	3.2	7.2	3.0
Diversified growth fund	**6.4**	**9.6**	7.3	5.6	7.5	4.7
Cash and other assets	**3.3**	**0.2**	4.3	0.2	1.0	0.6
	5.3	**79.5**	6.2	74.6	6.2	69.5

Provisional asset information at bid value was supplied by the investment managers as at 31 March 2012. The unaudited value of the invested assets at this date is £79.3m. The SRS also had net current assets of £0.2m.

	2012 £m
Black Rock Advisors UK Limited (Equity portfolio)	**30.3**
Black Rock Advisors UK Limited (Bond portfolio)	**36.3**
Black Rock Advisors UK Limited (Tactical Asset Allocation portfolio)	**3.1**
Ruffers Diversified Growth Fund	**9.6**
Total invested assets	**79.3**
Cash and net current assets	**0.2**
Total assets	**79.5**

Stakeholder scheme

The total cost for the year of the stakeholder plan to the Group and Society was £0.9m (2010/11: £0.8m) and there were no outstanding contributions at the end of the year (2010/11: £nil).

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 staff have been able to contribute between 2% and 10% with the Society providing matched funding.

31. 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, foreign currency and equity risk).

Credit risk

Credit risk can be described as the risk of the customers or counterparties being unable to meet their financial obligations to the Group as they become due. The most significant credit risk arises in respect of loans to residential and commercial mortgage customers.

The Group Risk Committee is responsible for the management of the 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 two Executive sub-committees; the Residential Credit Committee and the Commercial Loans Risk Committee and their role in the credit risk framework is outlined below:

- 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. The minutes of this committee are presented to the Group Risk Committee.
- The Commercial Loans Risk Committee reviews individual commercial loans at levels mandated by the Board. This may involve reviewing each case on a quarterly, half yearly or annual basis. The minutes of this committee are presented to the Group Risk Committee.

The Group adopts a responsible approach to lending and ensures that the servicing of the loan meets the customer's ability to repay.

The maximum credit risk exposure is the book value as shown in the book and fair value table on page 82. The Group's most significant exposures to credit risk are loans secured on UK residential properties and loans secured on UK land.

Residential assets

Concentration by loan type	**Group 2012 £m**	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
Prime owner occupied	**1,551.1**	1,782.5	**1,216.2**	1,403.6
Buy-to-let	**2,549.4**	2,637.2	**649.9**	681.0
Other	**133.2**	145.9	**3.2**	3.4
Gross balances	**4,233.7**	4,565.6	**1,869.3**	2,088.0
Impairment provisions	**(31.3)**	(30.3)	**(19.3)**	(17.6)
Fair value adjustments	**10.6**	10.3	**8.8**	7.3
	4,213.0	4,545.6	**1,858.8**	2,077.7

The table below shows the geographic spread of the residential loan portfolio at the year end date:

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
East Anglia	**101.0**	106.2	**29.3**	32.0
East Midlands	**363.1**	385.2	**150.3**	165.4
Greater London	**719.2**	773.5	**204.0**	225.9
Northern Ireland	**7.5**	8.2	**1.6**	2.1
North	**123.9**	132.5	**44.5**	49.5
North West	**426.2**	451.3	**182.3**	198.4
Scotland	**169.1**	179.2	**63.7**	69.7
South East	**736.7**	791.1	**267.9**	296.8
South West	**326.4**	351.0	**141.4**	156.9
Wales	**216.8**	234.7	**112.6**	125.9
West Midlands	**787.9**	880.5	**585.7**	670.0
Yorkshire	**255.9**	272.2	**86.0**	95.4
	4,233.7	4,565.6	**1,869.3**	2,088.0

The table below shows analysis of the indexed loan to value distribution of the residential loan portfolio at the year end date:

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
>95%	**1,045.4**	1,170.4	**254.8**	293.7
90% - 95%	**455.4**	491.2	**137.5**	151.5
85% - 90%	**449.4**	537.1	**146.0**	190.4
75% - 85%	**756.3**	718.8	**324.9**	327.8
50% - 75%	**882.6**	941.8	**511.3**	571.5
<50%	**644.6**	706.3	**494.8**	553.1
	4,233.7	4,565.6	**1,869.3**	2,088.0

The Group's average indexed loan to value at the year end date is 67.1% (2010/11: 66.7%)

31. Financial instruments (continued)

The table below provides further information on the Group's residential loans and advances to customers by payment due status at 31 March 2012:

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Loans neither past due or impaired	**4,039.1**	4,353.6	**1,762.1**	1,972.9
Past due but not impaired				
Past due 1 to 3 months	**58.0**	74.1	**26.4**	33.6
Past due 3 to 6 months	**23.1**	11.2	**10.7**	7.5
Past due 6 to 12 months	**8.7**	5.1	**4.1**	3.1
Past due over 12 months	**2.7**	1.3	**1.5**	0.6
Impaired				
Past due 1 to 3 months	**35.0**	34.5	**31.9**	34.0
Past due 3 to 6 months	**18.3**	25.3	**8.0**	7.4
Past due 6 to 12 months	**15.3**	18.5	**6.9**	6.7
Past due over 12 months	**21.2**	27.1	**13.5**	15.7
Possessions	**12.3**	14.9	**4.2**	6.5
	4,233.7	4,565.6	**1,869.3**	2,088.0

The following table indicates collateral held against residential loans and advances to customers:

Value of collateral held

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Not impaired	**6,918.9**	7,247.9	**3,675.7**	4,090.4
Impaired	**117.1**	100.5	**59.6**	57.0
Possessions	**13.9**	14.8	**4.1**	6.5
	7,049.9	7,363.2	**3,739.4**	4,153.9

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.

Forbearance strategies and renegotiated loans

A range of forbearance strategies is employed in order to work with our borrowers to control arrears and, wherever possible, avoid repossession. The agreed strategy will reflect the customer's individual circumstances and will be used in line with industry guidance. Our policies and practices are based on criteria which, in the judgment of senior management, indicate that repayment is likely to continue. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans. The Group has commenced recording at a more granular level the forbearance activities adopted to establish the impact on impairment recognition, which will enable more comprehensive reporting in future years.

Some of these forbearance activities are applied on a small number of commercial mortgages.

Our credit risk management policy sets out restrictions on the number and frequency of restructures. The application of this policy varies according to the nature of the market, the product and the management of customer relationships through the occurrence of exceptional events.

Loans that have been restructured and would otherwise have been past due or impaired 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.

31. Financial instruments (continued)

The table below analyses residential mortgage balances with renegotiated terms at the year end date:

Group	Arrangements 2012 £m	Concessions 2012 £m	Capitalisation 2012 £m	Short-term interest only conversions 2012 £m	Term extensions 2012 £m	Total 2012 £m
Loans neither past due or impaired	14.9	2.7	6.9	2.5	0.9	**27.9**
Past due but not impaired						
Past due 1 to 3 months	15.5	1.2	0.7	0.9	0.4	**18.7**
Past due 3 to 6 months	4.9	0.2	0.5	0.4	-	**6.0**
Past due 6 to 12 months	2.4	0.3	0.2	-	-	**2.9**
Past due over 12 months	0.5	0.2	-	0.1	-	**0.8**
Impaired						
Past due 3 to 6 months	6.9	0.4	0.3	0.3	0.2	**8.1**
Past due 6 to 12 months	4.5	0.2	-	0.2	-	**4.9**
Past due over 12 months	0.4	0.5	-	0.2	0.1	**1.2**
Possessions	-	-	-	0.1	-	**0.1**
	50.0	**5.7**	**8.6**	**4.7**	**1.6**	**70.6**

Commercial assets

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Concentration by loan type				
Loans secured on commercial property	**1,061.2**	1,213.3	**23.1**	23.2
Loans to housing associations	**0.1**	0.1	**-**	-
Loans secured on residential property	**75.5**	109.4	**7.3**	7.3
Gross balances	**1,136.8**	1,322.8	**30.4**	30.5
Impairment provisions	**(67.4)**	(60.9)	**-**	-
Fair value adjustments	**91.0**	72.4	**7.1**	3.2
	1,160.4	1,334.3	**37.5**	33.7

The analysis of loans secured on commercial property by industry type is as follows:

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Healthcare and leisure	**228.7**	249.5	**-**	-
Industrial and warehouse	**61.3**	73.2	**2.6**	1.1
Office	**204.4**	221.6	**10.8**	10.9
Retail	**560.0**	659.2	**9.7**	11.2
Other	**6.8**	9.8	**-**	-
	1,061.2	1,213.3	**23.1**	23.2

31. Financial instruments (continued)

The table below shows the geographic spread of the commercial loan portfolio at the year end date:

	Group 2012 £m	Group 2011 £m	**Society 2012 £m**	Society 2011 £m
East Anglia	**24.6**	25.6	**0.4**	0.4
East Midlands	**66.6**	76.1	**1.3**	1.3
Greater London	**243.6**	323.1	**15.8**	15.8
North	**58.1**	61.1	**-**	-
North West	**250.4**	263.9	**4.4**	4.4
Scotland	**20.9**	30.1	**1.4**	1.4
South East	**197.4**	218.1	**0.8**	0.8
South West	**67.4**	73.3	**0.2**	0.2
Wales	**38.1**	40.5	**0.6**	0.6
West Midlands	**95.8**	106.3	**0.5**	0.5
Yorkshire	**73.9**	104.7	**5.0**	5.1
	1,136.8	1,322.8	**30.4**	30.5

The Group's average indexed loan to value at the year end date is 112.0% (2010/11: 107.0%). £nil (2010/11: £14.2m) of loans that would be past due or impaired have had their terms renegotiated.

Included within commercial loans are £262.8m (2010/11: £288.0m) of commercial mortgage balances that the Group has sold to bankruptcy remote special purpose entities (SPEs). Since the Group maintains substantially all of the risks and rewards emanating from the commercial mortgages subject to first loss limitations, they are included in the Group's Statement of Financial Position in accordance with IAS 39.

31. Financial instruments (continued)

The table below provides further information on the Group's commercial assets by payment due status at 31 March 2012:

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Loans neither past due or impaired	**781.5**	966.6	**30.4**	30.5
Not past due but impaired	**161.0**	89.4	**-**	-
Past due but not impaired				
Past due up to 3 months	**10.5**	54.4	**-**	-
Past due 3 to 6 months	**2.0**	-	**-**	-
Past due 6 to 12 months	**0.9**	2.6	**-**	-
Past due over 12 months	**18.3**	-	**-**	-
Impaired				
Past due up to 3 months	**20.9**	71.9	**-**	-
Past due 3 to 6 months	**16.2**	1.2	**-**	-
Past due 6 to 12 months	**9.5**	44.1	**-**	-
Past due over 12 months	**116.0**	92.5	**-**	-
Possessions	**-**	0.1	**-**	-
	1,136.8	1,322.8	**30.4**	30.5

The following table indicates collateral held against commercial loans and advances to customers:

Value of collateral held

Group	Indexed 2012 £m	Unindexed 2012 £m	Indexed 2011 £m	Unindexed 2011 £m
Not impaired	**1,081.4**	**1,051.4**	1,339.9	1,321.9
Impaired	**269.6**	**267.5**	214.2	219.0
Possessions	**-**	**-**	2.2	2.2
	1,351.0	**1,318.9**	1,556.3	1,543.1

Value of collateral held

Society	Indexed 2012 £m	Unindexed 2012 £m	Indexed 2011 £m	Unindexed 2011 £m
Not impaired	**51.7**	**51.1**	50.6	51.1

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.

31. Financial instruments (continued)

Credit risk – impairment

As described in note 1, the Group uses a number of experience-based and judgmental factors to determine the appropriate level of impairment provisions. The key assumptions applied are as follows:

Group and Society	2012
Probability of possession given default*	15% to 85%
Loss emergence period	6 to 12 months
House price inflation	
2012/13	0.00%
2013/14	0.00%
2014/15	1.50%
2015/16	3.00%
2016/17	4.00%
2017 onwards	4.75%
Forced sale discount	14% to 36%

* Default is defined as 3 months + arrears

Credit risk – 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 closely monitored and managed by the Group.

The Group determines that a treasury asset is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment the Group evaluates, among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. At 31 March 2012 and 31 March 2011 none of the Group's treasury portfolio exposure was either past due or impaired.

At 31 March 2012, 100.0% (2010/11: 95.9%) of the Group's treasury investment assets were rated single A or better. The Group has no exposure in its liquidity portfolio to the emerging markets, Greece, Ireland, Italy, Portugal, Belgium or Spain, or to any mortgage market other than the UK, and no impairment charges were required against any treasury investment assets in the year. The tables below show the relative concentrations of the Group's treasury investment portfolio:

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
Concentration by credit grading				
AAA	1,284.7	1,052.5	1,284.7	1,052.5
AA+ to AA-	175.2	307.7	126.0	230.9
A+ to A-	268.0	10.3	250.6	10.3
Building societies	83.3	58.2	83.3	58.2
Other	-	-	1,131.9	1,167.7
	1,811.2	1,428.7	2,876.5	2,519.6
Concentration by sector				
Financial institutions	526.5	372.9	459.9	299.4
Asset backed securities	144.4	180.6	1,276.3	1,344.9
Supranational institutions	350.3	-	350.3	-
Sovereign	790.0	875.2	790.0	875.3
	1,811.2	1,428.7	2,876.5	2,519.6
Concentration by region				
UK	1,264.2	1,300.2	2,378.8	2,391.1
Europe (excluding UK)	140.4	72.6	91.1	72.6
North America	0.3	-	0.3	-
Australasia	56.0	55.9	56.0	55.9
Supranational	350.3	-	350.3	-
	1,811.2	1,428.7	2,876.5	2,519.6

31. Financial instruments (continued)

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 Group 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 a policy approved by the Board. This policy sets out the nature of risk which may be taken and aggregate risk limits. At each meeting the Assets & Liabilities Committee (ALCo) reviews reports showing the Group's exposure to market and liquidity risks.

The Group's exposure to market risk is managed by Treasury by using appropriate hedging instruments or by taking advantage of natural hedges arising or existing within the Group's businesses. Market risk is managed within a clearly defined framework of policy limits and it is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, basis risk analysis, scenario analysis, net interest income and market value sensitivity analysis.

Interest rate risk

The Treasury and Financial Risks Management Policy sets out a framework of limits and controls that articulate the Board's appetite for interest rate risk, which is low. Within this Policy, the Board has delegated responsibility for the management of interest rate risk to ALCo which reviews the impact of both parallel and non-parallel shifts in rates upon the Society's net interest income and the market value of its balance sheet.

Analysis is also presented to show the mismatches between assets and liabilities whose rates move in line with different variable rate benchmarks such as LIBOR, Bank Rate and administered rate. Such mismatches generate additional interest rate risks to those assessed by parallel shift analysis. The Board has imposed limits upon these absolute basis mismatches and upon the maximum loss that could arise from a 150 bps widening in the spread between Bank Rate LIBOR mismatch for a six month rolling period.

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 any one month. General reserves, PPDS 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' enables the calculation of a one basis point sensitivity of the whole balance sheet to movements in interest rates.

The primary interest rate risk metrics employed by the Group incorporate market value and net interest income methodologies. The Group's exposure to interest rate risk is stress tested against limits by determining the effect of the Group's current net notional value of assets and liabilities for a parallel shift in the yield curve for the range +2% to -2% for market value and -0.5% to +2% for net interest income combined with scenarios for extreme Bank Rate and LIBOR paths. The results are reviewed monthly by ALCo. The scale of interest risk is controlled by the establishment of an operational range and an absolute limit structure. The Group also operates a gap limit, and the Group's gap positions are reported monthly to the Financial Services Authority.

The levels of Group pre tax interest rate risk exposures, to a +2% parallel shift, through the reporting period were as follows:

	At 31 March 2012 £m	Average 2012 £m	High 2012 £m	Low 2012 £m
Market value	**(5.0)**	(4.9)	(12.0)	0.7
Net interest income	**(1.9)**	(1.5)	(3.8)	-

31. Financial instruments (continued)

Liquidity risk

The Society's principal purpose is to make loans secured by way of mortgage on residential property. It funds these loans substantially from short term deposits provided by its saving members. The contractual maturity of the mortgages is typically up to 25 years although loans are often repaid early due to borrowers moving house or remortgaging. On average, loans made by the Society last for seven years. It is this inherent mismatch in the maturity profiles of retail assets and liabilities that creates liquidity risk.

The Group's liquidity policy is designed to ensure the maintenance of sufficient liquid assets to cover statutory, regulatory and operational requirements. This is achieved through maintaining a prudent level of liquid assets, in realisable form to ensure the Group is able to meet its liabilities as they arise and to absorb potential cash flow requirements created by the maturity mismatches referred to above or by a liquidity stress scenario. The policy delegates liquidity management, within risk appetite limits established by the Board, as well as to monitor the composition of liquidity in line with risk management objectives.

The management of the Group's liquidity is as follows:

- The Board has delegated authority for the governance of liquidity risk management to the Assets & Liabilities Committee (ALCo) which meets monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC) which meets weekly. LMC looks at liquidity stresses over a horizon of up to three months and plans cash flows over a rolling 12 month plan period. Quality, quantity and availability of liquidity resources are planned to meet demand;
- LMC also conducts a series of daily, weekly and monthly stress tests that are designed to ensure that its liquidity is sufficient to meet its cash flow needs under any one of a number of adverse scenarios should they arise. The scenarios include ones caused by both Group specific and general market events, and incorporate both severe retail savings outflows and the unavailability of wholesale funding; and
- Under the FSA's liquidity regime, introduced in 2010, the Group is required to hold highly liquid collateral ('buffer liquidity' such as government and supranational debt securities and cash) in excess of the FSA's Individual Liquidity Guidance (ILG) and the wholesale refinancing gap.

There are three key measures that the Group considers key to monitoring its liquidity position:

- Buffer liquidity - which analyses daily the amount of high quality liquidity that it is necessary to hold;
- Wholesale refinancing gap - which sets a maximum permitted net wholesale outflow limit over the following two weeks; and
- Liquidity stress tests - where, as noted above, the Group models how far its liquid asset holdings would fall under a number of different stress scenarios.

Further details of liquidity management are contained within the Risk Management Report on pages 17 to 20.

The table below analyses the Group's assets and liabilities across maturity periods that reflect the residual duration from the year end date to the contractual maturity date. The actual repayment profile of loans and advances is likely to be significantly different to that shown in the analysis.

At 31 March 2012

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
Assets							
Cash and balances with the Bank of England	763.7	-	-	-	-	5.5	**769.2**
Loans and advances to credit institutions	21.5	94.6	1.4	-	-	-	**117.5**
Investment securities	-	254.0	114.9	482.4	73.2	-	**924.5**
Derivative financial instruments	-	14.1	15.8	17.1	17.5	-	**64.5**
Loans and advances to customers	-	30.0	378.8	634.2	4,330.6	-	**5,373.6**
Deferred tax assets	-	-	-	-	-	25.7	**25.7**
Trade and other receivables	-	-	-	-	-	4.3	**4.3**
Intangible assets	-	-	-	-	-	7.5	**7.5**
Investment properties	-	-	-	-	-	112.7	**112.7**
Property, plant and equipment	-	-	-	-	-	17.6	**17.6**
	785.2	**392.7**	**510.9**	**1,133.7**	**4,421.3**	**173.3**	**7,417.1**
Liabilities and equity							
Shares	3,767.1	638.8	618.7	633.4	14.8	-	**5,672.8**
Amounts due to credit institutions	-	48.6	-	-	-	-	**48.6**
Amounts due to other customers	-	91.4	36.3	2.0	-	-	**129.7**
Derivative financial instruments	-	-	1.0	23.8	83.0	-	**107.8**
Debt securities in issue	-	610.9	91.1	-	225.4	-	**927.4**
Deferred tax liabilities	-	-	-	-	-	8.2	**8.2**
Trade and other payables	-	-	-	-	-	19.9	**19.9**
Provisions for liabilities	-	-	-	-	-	6.4	**6.4**
Retirement benefit obligations	-	-	-	-	-	0.4	**0.4**
Profit participating deferred shares	-	-	-	-	-	175.0	**175.0**
Subscribed capital	-	-	-	-	-	74.9	**74.9**
General reserves	-	-	-	-	-	241.1	**241.1**
Revaluation reserve	-	-	-	-	-	3.7	**3.7**
Available for sale reserve	-	-	-	-	-	1.2	**1.2**
	3,767.1	**1,389.7**	**747.1**	**659.2**	**323.2**	**530.8**	**7,417.1**

31. Financial instruments (continued)

At 31 March 2012

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
Assets							
Cash and balances with the Bank of England	763.7	-	-	-	-	5.5	**769.2**
Loans and advances to credit institutions	0.1	49.4	1.4	-	-	-	**50.9**
Investment securities	-	254.0	114.9	620.9	1,066.6	-	**2,056.4**
Derivative financial instruments	-	14.1	15.8	23.1	28.7	-	**81.7**
Loans and advances to customers	-	4.2	14.0	172.3	1,705.8	-	**1,896.3**
Current tax assets	-	-	-	-	-	0.2	**0.2**
Deferred tax assets	-	-	-	-	-	12.2	**12.2**
Trade and other receivables	-	-	-	-	-	3.6	**3.6**
Investments	-	-	-	-	-	2,274.7	**2,274.7**
Intangible assets	-	-	-	-	-	6.9	**6.9**
Property, plant and equipment	-	-	-	-	-	17.6	**17.6**
	763.8	**321.7**	**146.1**	**816.3**	**2,801.1**	**2,320.7**	**7,169.7**
Liabilities and equity							
Shares	3,767.1	638.8	618.7	633.4	14.8	-	**5,672.8**
Amounts due to credit institutions	-	48.6	-	-	-	-	**48.6**
Amounts due to other customers	-	91.4	36.3	2.0	-	-	**129.7**
Derivative financial instruments	-	-	0.8	18.3	72.4	-	**91.5**
Debt securities in issue	-	610.9	91.1	-	-	-	**702.0**
Deferred tax liabilities	-	-	-	-	-	0.5	**0.5**
Trade and other payables	-	-	-	-	-	15.3	**15.3**
Provisions for liabilities	-	-	-	-	-	6.4	**6.4**
Retirement benefit obligations	-	-	-	-	-	0.4	**0.4**
Profit participating deferred shares	-	-	-	-	-	175.0	**175.0**
Subscribed capital	-	-	-	-	-	74.9	**74.9**
General reserves	-	-	-	-	-	247.7	**247.7**
Revaluation reserve	-	-	-	-	-	3.7	**3.7**
Available for sale reserve	-	-	-	-	-	1.2	**1.2**
	3,767.1	**1,389.7**	**746.9**	**653.7**	**87.2**	**525.1**	**7,169.7**

31. Financial instruments (continued)

At 31 March 2011

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
Assets							
Cash and balances with the Bank of England	377.7	-	-	-	-	7.7	385.4
Loans and advances to credit institutions	92.9	31.8	-	-	-	-	124.7
Investment securities	-	70.9	384.5	385.8	77.4	-	918.6
Derivative financial instruments	-	8.1	11.5	41.5	12.3	-	73.4
Loans and advances to customers	-	176.5	256.4	1,299.9	4,147.3	-	5,880.1
Current tax assets	-	-	-	-	-	1.9	1.9
Deferred tax assets	-	-	-	-	-	23.8	23.8
Trade and other receivables	-	-	-	-	-	5.8	5.8
Intangible assets	-	-	-	-	-	7.2	7.2
Investment properties	-	-	-	-	-	113.7	113.7
Property, plant and equipment	-	-	-	-	-	12.6	12.6
Retirement benefit assets	-	-	-	-	-	1.8	1.8
	470.6	287.3	652.4	1,727.2	4,237.0	174.5	7,549.0
Liabilities and equity							
Shares	3,070.1	847.0	694.7	1,062.7	37.4	-	5,711.9
Amounts due to credit institutions	-	64.3	-	-	-	-	64.3
Amounts due to other customers	-	112.5	4.0	15.1	-	-	131.6
Derivative financial instruments	-	0.3	1.7	14.4	63.4	-	79.8
Debt securities in issue	-	230.8	-	517.0	277.5	-	1,025.3
Deferred tax liabilities	-	-	-	-	-	6.2	6.2
Trade and other payables	-	-	-	-	-	18.6	18.6
Provisions for liabilities	-	-	-	-	-	6.8	6.8
Profit participating deferred shares	-	-	-	-	-	177.3	177.3
Subscribed capital	-	-	-	-	-	74.9	74.9
General reserves	-	-	-	-	-	251.3	251.3
Revaluation reserve	-	-	-	-	-	3.7	3.7
Available for sale reserve	-	-	-	-	-	(2.6)	(2.6)
Cash flow hedging reserve	-	-	-	-	-	(0.1)	(0.1)
	3,070.1	1,254.9	700.4	1,609.2	378.3	536.1	7,549.0

31. Financial instruments (continued)

At 31 March 2011

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
Assets							
Cash and balances with the Bank of England	377.7	-	-	-	-	7.7	385.4
Loans and advances to credit institutions	18.4	31.8	-	-	-	-	50.2
Investment securities	-	70.9	384.5	385.8	1,242.8	-	2,084.0
Derivative financial instruments	-	8.1	12.3	43.0	23.4	-	86.8
Loans and advances to customers	-	8.0	12.6	173.9	1,916.9	-	2,111.4
Current tax assets	-	-	-	-	-	2.2	2.2
Deferred tax assets	-	-	-	-	-	11.2	11.2
Trade and other receivables	-	-	-	-	-	3.0	3.0
Investments	-	-	-	-	-	2,498.3	2,498.3
Intangible assets	-	-	-	-	-	6.6	6.6
Property, plant and equipment	-	-	-	-	-	12.5	12.5
Retirement benefit assets	-	-	-	-	-	1.8	1.8
	396.1	118.8	409.4	602.7	3,183.1	2,543.3	7,253.4
Liabilities and equity							
Shares	3,070.1	847.0	694.7	1,062.7	37.4	-	5,711.9
Amounts due to credit institutions	-	64.3	-	-	-	-	64.3
Amounts due to other customers	-	112.5	4.0	15.1	-	-	131.6
Derivative financial instruments	-	0.8	1.4	9.2	55.1	-	66.5
Debt securities in issue	-	230.8	-	517.0	-	-	747.8
Deferred tax liabilities	-	-	-	-	-	1.7	1.7
Trade and other payables	-	-	-	-	-	14.1	14.1
Provisions for liabilities	-	-	-	-	-	6.8	6.8
Profit participating deferred shares	-	-	-	-	-	177.3	177.3
Subscribed capital	-	-	-	-	-	74.9	74.9
General reserves	-	-	-	-	-	255.5	255.5
Revaluation reserve	-	-	-	-	-	3.7	3.7
Available for sale reserve	-	-	-	-	-	(2.6)	(2.6)
Cash flow hedging reserve	-	-	-	-	-	(0.1)	(0.1)
	3,070.1	1,255.4	700.1	1,604.0	92.5	531.3	7,253.4

31. Financial instruments (continued)

The significant development of liquidity stress testing and forecast models has continued throughout 2012 due to economic and market conditions. A wide range of scenarios is considered including mild and severe distresses, credit downgrades and a total closure of the wholesale market. An analysis of the liquidity portfolio is set out in the table below:

Group	2012 £m	2012 %	2011 £m	2011 %
Cash in hand and balances with the Bank of England	**769.2**	**42.5**	385.4	27.0
Cash with banks and building societies	**117.5**	**6.5**	124.7	8.7
Gilts	**20.5**	**1.1**	142.5	9.9
Certificates of deposit	**207.5**	**11.5**	65.1	4.6
Fixed rate bonds	**417.6**	**23.0**	381.6	26.7
Floating rate notes	**134.2**	**7.4**	149.6	10.5
Residential mortgage backed securities	**144.7**	**8.0**	179.8	12.6
Total	**1,811.2**	**100.0**	1,428.7	100.0

During the year the liquidity balances have increased from £1,428.7m at 31 March 2011 to £1,811.2m at 31 March 2012. Expressed as a proportion of combined shares and deposits liabilities, this represents an increase from 21.47% to 27.64%.

The following table is an analysis of the gross contractual cash flows payable under financial liabilities:

At 31 March 2012

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	4,429.2	616.2	631.0	14.8	**5,691.2**
Amounts owed to credit institutions, other customers and holders of debt securities	672.2	179.0	2.1	74.9	**928.2**
Derivative financial instruments	7.4	21.4	100.6	85.5	**214.9**
Total liabilities	**5,108.8**	**816.6**	**733.7**	**175.2**	**6,834.3**

At 31 March 2011

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,978.0	717.7	1,100.5	37.7	5,833.9
Amounts owed to credit institutions, other customers and holders of debt securities	363.9	4.1	539.1	257.4	1,164.5
Derivative financial instruments	8.9	25.9	117.7	148.0	300.5
Total liabilities	4,350.8	747.7	1,757.3	443.1	7,298.9

For each material class of financial liability a maturity analysis is provided on pages 74 to 77.

31. Financial instruments (continued)

At 31 March 2012

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	4,429.2	616.2	631.0	14.8	**5,691.2**
Amounts owed to credit institutions, other customers and holders of debt securities	672.2	179.0	2.1	74.9	**928.2**
Derivative financial instruments	5.3	15.1	67.2	32.5	**120.1**
Total liabilities	**5,106.7**	**810.3**	**700.3**	**122.2**	**6,739.5**

At 31 March 2011

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,978.0	717.7	1,100.5	37.7	5,833.9
Amounts owed to credit institutions, other customers and holders of debt securities	363.9	4.1	539.1	257.4	1,164.5
Derivative financial instruments	6.1	17.4	74.1	65.5	163.1
Total liabilities	4,348.0	739.2	1,713.7	360.6	7,161.5

Foreign currency risk
Foreign exchange risk arises as a result of activities undertaken by the Group when raising and investing funds in currencies other than Sterling, which is done in order to manage wholesale funding costs and the returns on liquid assets and to provide diversity in funding and investment markets. The Group had no foreign currency exposure at 31 March 2012 (2010/11: £13.2m, consisting of fully hedged Euro medium term notes).

Equity risk
Equity risk arises from index linked savings products offered by the Group and is managed through the use of derivative contracts. The Group's only exposure to equity risk at 31 March 2012 was £297.0m (2010/11: £356.1m) of fully hedged savings products.

Derivative financial instruments
Instruments used for risk management purposes include derivative financial instruments (derivatives). Derivatives are 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 Group uses derivatives to reduce market risk in its daily activities. Derivatives are not used in trading activity or for speculative purposes. The nature of these instruments means that the nominal value of these transactions is not included in the Statement of Financial Position. The interest payments, receipts and changes in fair value of effective hedges are recognised in the interest margin. Fair values are recorded in the Statement of Financial Position.

Types of derivatives
The principal derivatives used by the Group are interest rate swaps, cross currency interest rate swaps and index linked swaps that are used to hedge Group Statement of Financial Position exposures.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the type of derivatives which are typically used in managing such risks. Such risks may also be managed using Statement of Financial Position instruments as part of an integrated approach to risk management.

Activity	Risk	Managed by
Management of the investment of reserves and other non-interest bearing liabilities	Sensitivity to changes in interest rates	Matching against fixed rate assets
Fixed rate mortgage lending and other assets	Sensitivity to rises in interest rates	Pay fixed rate interest rate swaps and swaptions, matching against fixed rate receipts
Fixed rate savings products and funding	Sensitivity to falls in interest rates	Receive fixed rate interest rate swaps and swaptions, matching against fixed rate liabilities
Investments, funding or products denominated in foreign currencies	Sensitivity to changes in interest rates and currency exchange rates	Cross currency interest rate/basis swaps
Equity linked investment products	Sensitivity to changes in equity indices	Equity linked swaps and options
Cap, collared or floored products	Sensitivity to changes in interest rates	Matching against appropriate cap, collar or floor derivatives or suitable assets or liabilities

31. Financial instruments (continued)

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 2012

Group	Amortised cost £m	Available for sale £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	769.2	-	-	**769.2**
Loans and advances to credit institutions	117.5	-	-	**117.5**
Investment securities	-	924.5	-	**924.5**
Derivative financial instruments	-	-	64.5	**64.5**
Loans and advances to customers	5,284.2	-	89.4	**5,373.6**
Total financial assets	**6,170.9**	**924.5**	**153.9**	**7,249.3**
Other non-financial assets				**167.8**
Total assets				**7,417.1**
Liabilities				
Shares	5,672.8	-	-	**5,672.8**
Amounts due to credit institutions	48.6	-	-	**48.6**
Amounts due to other customers	129.7	-	-	**129.7**
Derivative financial instruments	-	-	107.8	**107.8**
Debt securities in issue	333.9	-	593.5	**927.4**
Total financial liabilities	**6,185.0**	**-**	**701.3**	**6,886.3**
Other non-financial liabilities				**34.9**
Total liabilities				**6,921.2**

At 31 March 2011

Group	Amortised cost £m	Available for sale £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	385.4	-	-	385.4
Loans and advances to credit institutions	124.7	-	-	124.7
Investment securities	-	918.6	-	918.6
Derivative financial instruments	-	-	73.4	73.4
Loans and advances to customers	5,795.2	-	84.9	5,880.1
Total financial assets	6,305.3	918.6	158.3	7,382.2
Other non-financial assets				166.8
Total assets				7,549.0
Liabilities				
Shares	5,711.9	-	-	5,711.9
Amounts due to credit institutions	64.3	-	-	64.3
Amounts due to other customers	131.6	-	-	131.6
Derivative financial instruments	-	-	79.8	79.8
Debt securities in issue	398.6	-	626.7	1,025.3
Total financial liabilities	6,306.4	-	706.5	7,012.9
Other non-financial liabilities				31.6
Total liabilities				7,044.5

31. Financial instruments (continued)

At 31 March 2012

Society	Amortised cost £m	Available for sale £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	769.2	-	-	**769.2**
Loans and advances to credit institutions	50.9	-	-	**50.9**
Investment securities	1,131.9	924.5	-	**2,056.4**
Derivative financial instruments	-	-	81.7	**81.7**
Loans and advances to customers	1,896.3	-	-	**1,896.3**
Investments	2,274.7	-	-	**2,274.7**
Total financial assets	**6,123.0**	**924.5**	**81.7**	**7,129.2**
Other non-financial assets				**40.5**
Total assets				**7,169.7**
Liabilities				
Shares	5,672.8	-	-	**5,672.8**
Amounts due to credit institutions	48.6	-	-	**48.6**
Amounts due to other customers	129.7	-	-	**129.7**
Derivative financial instruments	-	-	91.5	**91.5**
Debt securities in issue	192.1	-	509.9	**702.0**
Total financial liabilities	**6,043.2**	**-**	**601.4**	**6,644.6**
Other non-financial liabilities				**22.6**
Total liabilities				**6,667.2**

At 31 March 2011

Society	Amortised cost £m	Available for sale £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	385.4	-	-	385.4
Loans and advances to credit institutions	50.2	-	-	50.2
Investment securities	1,165.4	918.6	-	2,084.0
Derivative financial instruments	-	-	86.8	86.8
Loans and advances to customers	2,111.4	-	-	2,111.4
Investments	2,498.3	-	-	2,498.3
Total financial assets	6,210.7	918.6	86.8	7,216.1
Other non-financial assets				37.3
Total assets				7,253.4
Liabilities				
Shares	5,711.9	-	-	5,711.9
Amounts due to credit institutions	64.3	-	-	64.3
Amounts due to other customers	131.6	-	-	131.6
Derivative financial instruments	-	-	66.5	66.5
Debt securities in issue	220.8	-	527.0	747.8
Total financial liabilities	6,128.6	-	593.5	6,722.1
Other non-financial liabilities				22.6
Total liabilities				6,744.7

The Group and Society financial assets and liabilities recorded at fair value through profit or loss consist of derivative financial instruments and instruments that were designated as such upon initial recognition to avoid an accounting mismatch. As discussed in the accounting policies and note 28, these are economically hedged but where it is not practical to apply hedge accounting.

31. Financial instruments (continued)

Fair values of financial assets and financial liabilities

The tables below are a comparison of the book and fair values of the Group and Society's financial instruments by category at the reporting date. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

	Group carrying value 2012 £m	Group fair value 2012 £m	Society carrying value 2012 £m	Society fair value 2012 £m
Financial assets				
Cash and balances with the Bank of England	**769.2**	769.2	**769.2**	769.2
Investment securities	**924.5**	924.5	**2,056.4**	2,056.4
Loans and advances to credit institutions	**117.5**	117.5	**50.9**	50.9
Loans and advances to customers	**5,373.6**	5,342.2	**1,896.3**	1,898.3
Financial liabilities				
Shares	**5,672.8**	5,710.7	**5,672.8**	5,710.7
Amounts due to credit institutions	**48.6**	48.6	**48.6**	48.6
Amounts due to other customers	**129.7**	129.7	**129.7**	129.7
Debt securities in issue	**927.4**	927.4	**702.0**	702.0

	Group carrying value 2011 £m	Group fair value 2011 £m	Society carrying value 2011 £m	Society fair value 2011 £m
Financial assets				
Cash and balances with the Bank of England	385.4	385.4	385.4	385.4
Investment securities	918.6	918.6	2,084.0	2,084.0
Loans and advances to credit institutions	124.7	124.7	50.2	50.2
Loans and advances to customers	5,880.1	6,035.4	2,111.4	2,203.2
Financial liabilities				
Shares	5,711.9	5,711.9	5,711.9	5,711.9
Amounts due to credit institutions	64.3	64.3	64.3	64.3
Amounts due to other customers	131.6	131.6	131.6	131.6
Debt securities in issue	1,025.3	1,028.0	747.8	750.5

a) Loans and advances to customers

The fair value of loans and advances to customers has been calculated on an individual loan basis taking into account factors such as impairment and interest rates. It is not considered appropriate to value them collectively as a portfolio sale.

Impairment is calculated on an incurred loss basis except to the extent that acquired mortgage books have been fair valued on a basis which makes allowances for anticipated losses over the remaining life of the loans.

b) Deposits 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 debts with similar remaining maturity.

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.

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 2012.

31. Financial instruments (continued)

Fair value measurement

The following table summarises the fair value measurement basis used for assets and liabilities held on the Statement of Financial Position at fair value:

Group	Level 1 2012 £m	Level 2 2012 £m	Level 3 2012 £m	Total 2012 £m
Financial assets				
Investment securities	717.0	207.5	-	**924.5**
Loans and advances to customers	-	89.4	-	**89.4**
Derivative financial instruments	-	64.5	-	**64.5**
	717.0	**361.4**	**-**	**1,078.4**
Financial liabilities				
Debt securities in issue	-	593.5	-	**593.5**
Derivative financial instruments	-	107.8	-	**107.8**
	-	**701.3**	**-**	**701.3**

Society	Level 1 2012 £m	Level 2 2012 £m	Level 3 2012 £m	Total 2012 £m
Financial assets				
Investment securities	717.0	207.5	-	**924.5**
Derivative financial instruments	-	81.7	-	**81.7**
	717.0	**289.2**	**-**	**1,006.2**
Financial liabilities				
Debt securities in issue	-	509.9	-	**509.9**
Derivative financial instruments	-	91.5	-	**91.5**
	-	**601.4**	**-**	**601.4**

Group	Level 1 2011 £m	Level 2 2011 £m	Level 3 2011 £m	Total 2011 £m
Financial assets				
Investment securities	853.5	65.1	-	918.6
Loans and advances to customers	-	84.9	-	84.9
Derivative financial instruments	-	73.4	-	73.4
	853.5	223.4	-	1,076.9
Financial liabilities				
Debt securities in issue	-	626.7	-	626.7
Derivative financial instruments	-	79.8	-	79.8
	-	706.5	-	706.5

Society	Level 1 2011 £m	Level 2 2011 £m	Level 3 2011 £m	Total 2011 £m
Financial assets				
Investment securities	853.5	65.1	-	918.6
Derivative financial instruments	-	86.8	-	86.8
	853.5	151.9	-	1,005.4
Financial liabilities				
Debt securities in issue	-	527.0	-	527.0
Derivative financial instruments	-	66.5	-	66.5
	-	593.5	-	593.5

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. Examples of these are gilts and sovereign debt.

Level 2: These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. Where discounting techniques are used, management have chosen to use LIBOR rather than Overnight Index Swaps (OIS). This will be reviewed when derivative clearing is introduced. No Credit (CVA) or Debit (DVA) value adjustments have been made in respect of credit risk in the fair value of the Group's derivative financial instruments. Examples of level 2 instruments are certificates of deposit and interest rate swaps.

In considering which similar instruments to use, market and liquidity risk take into account the sensitivity of the instrument to changes in market rates and the credit quality of the instrument.

Level 3: These are valuation techniques for which any one or more significant input is not based on observable market data. None of the Group's financial assets or liabilities are valued using this technique.

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, foreign currency exchange 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.

32. Financial commitments

	Group 2012 £m	Group 2011 £m	Society 2012 £m	Society 2011 £m
a) Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	**0.7**	0.5	**0.7**	0.5
b) Leasing commitments				
Total commitments under non-cancellable leases				
Rental commitments arising:				
Within one year	**0.6**	0.7	**0.6**	0.6
Later than one year and not later than five years	**1.9**	1.8	**1.9**	1.8
After five years	**1.0**	1.3	**1.0**	1.3
	3.5	3.8	**3.5**	3.7
c) Loan commitments				
Undrawn loan facilities	**-**	-	**-**	-

33. Related party transactions

i) Subsidiary, parent and ultimate controlling party
The subsidiaries of the Society (the ultimate controlling party) are detailed in note 15.

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.

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 Executive and Non-Executive Directors, and their close family members:

Group and Society	No. of key management personnel 2012	Amount in respect of key management personnel and their close family members 2012 £000	No. of key management personnel 2011	Amount in respect of key management personnel and their close family members 2011 £000
Mortgage balances	**0**	**0**	1	101
Interest	**1**	**0**	2	2

Mortgages are made to key management personnel and members of their close family at normal commercial terms and no specific provisions are held against them. At 31 March 2012, there were no mortgage loans (2010/11: one loan) outstanding to Directors and their connected persons, amounting to £nil (2010/11: £0.1m).

A register is maintained by the Society containing details of loans and 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 (374 High Street, West Bromwich) during the period 15 days prior to the meeting.

iv) Contributions to pension schemes
During the year the Group paid contributions of £1.4m (2010/11: £2.7.m) to defined benefit pension schemes, which are classified as related parties.

v) Transactions with Group companies

	Interest paid to Society 2012 £m	Interest paid to Society 2011 £m
West Bromwich Mortgage Company Limited	**31.8**	38.2
West Bromwich Commercial Limited	**49.4**	58.7
West Bromwich Homes Limited	**3.1**	3.4
Insignia Finance Limited	**1.0**	1.2
	85.3	101.5

At the year end the following balances were outstanding with Group companies:

	Loans owed by subsidiaries 2012 £m	Loans owed to subsidiaries 2012 £m	Loans owed by subsidiaries 2011 £m	Loans owed to subsidiaries 2011 £m
West Bromwich Mortgage Company Limited	**1,354.2**	**-**	1,498.7	-
West Bromwich Commercial Limited	**794.2**	**-**	867.2	-
WBBS Computer Finance Limited	**(0.2)**	**-**	(0.1)	-
Governangle Limited – dormant	**-**	**0.2**	-	0.2
Governafter Limited – dormant	**-**	**0.1**	-	0.1
West Bromwich Financial Planning Limited	**(0.4)**	**-**	0.1	-
West Bromwich Homes Limited	**92.2**	**-**	91.3	-
Insignia Finance Limited	**34.1**	**-**	40.5	-
	2,274.1	**0.3**	2,497.7	0.3

Transactions and balances between Group companies are on normal commercial terms and conditions.

34. Business segments

Following the management approach of IFRS 8, 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. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has three main business segments:

- Retail – incorporating residential lending, savings, investments and protection;
- Commercial – 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, funding, treasury services, human resources and providing computer services, none of which constitute a separately reportable segment.

As the Group's segment operations are all financial with a majority of revenues deriving from interest and the Board relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis. There were no changes in the reportable segments during the year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the 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 admin expenses. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income, depreciation and administrative expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event.

As the Board reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment income or expense, assets and other information, which are regularly reviewed by the Group Board. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the Statement of Financial Position, but exclude items such as taxation.

Income statements

for the year ended 31 March 2012

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income	183.7	52.9	-	(55.8)	**180.8**
Interest expense and similar charges	(140.7)	(57.8)	(3.1)	55.7	**(145.9)**
Net interest receivable/(expense)	**43.0**	**(4.9)**	**(3.1)**	**(0.1)**	**34.9**
Fees and commissions receivable	5.4	0.7	-	-	**6.1**
Fair value (losses)/gains on financial instruments	(2.9)	(0.2)	-	0.1	**(3.0)**
Net realised profits	5.2	-	-	-	**5.2**
Other operating income/(expense)	1.4	0.7	3.8	(1.5)	**4.4**
Total operating income/(expense)	**52.1**	**(3.7)**	**0.7**	**(1.5)**	**47.6**
Administrative expenses – ongoing	(36.1)	(3.7)	(0.1)	1.7	**(38.2)**
Administrative expenses – restructuring	(0.1)	-	-	-	**(0.1)**
Depreciation and amortisation	(4.7)	-	-	-	**(4.7)**
Operating profit/(loss) before provisions	**11.2**	**(7.4)**	**0.6**	**0.2**	**4.6**
Losses on investment properties	-	-	(1.0)	-	**(1.0)**
Impairment losses on loans and advances	(4.3)	(6.2)	-	-	**(10.5)**
Provisions for contingent liabilities and commitments	(2.6)	-	-	-	**(2.6)**
Profit/(Loss) on ordinary activities before tax	**4.3**	**(13.6)**	**(0.4)**	**0.2**	**(9.5)**
Tax on profit/(loss) on ordinary activities	2.9	(1.4)	0.3	(1.5)	**0.3**
Profit/(Loss) for the year	**7.2**	**(15.0)**	**(0.1)**	**(1.3)**	**(9.2)**

34. Business segments (continued)

Statements of financial position

at 31 March 2012

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	**8,187.7**	**1,116.4**	**111.3**	**(1,998.3)**	**7,417.1**
Total liabilities	**7,657.2**	**1,170.4**	**90.4**	**(1,996.8)**	**6,921.2**
Capital expenditure	**10.2**	**-**	**-**	**-**	**10.2**

Income statements

for the year ended 31 March 2011

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Continuing operations £m	Discontinued operations (mortgage broking) £m	Total Group £m
Interest receivable and similar income*	195.2	57.7	-	(62.2)	190.7	-	190.7
Interest expense and similar charges*	(151.4)	(63.5)	(3.4)	62.0	(156.3)	-	(156.3)
Net interest receivable/(expense)	43.8	(5.8)	(3.4)	(0.2)	34.4	-	34.4
Fees and commissions receivable	5.0	0.7	-	-	5.7	0.5	6.2
Fees and commissions payable	-	-	-	-	-	(0.4)	(0.4)
Fair value (losses)/gains on financial instruments	(9.5)	0.4	-	-	(9.1)	-	(9.1)
Net realised profits	15.6	-	-	-	15.6	-	15.6
Other operating income/(expense)	1.2	0.7	3.7	(1.5)	4.1	0.8	4.9
Total operating income/(expense)	56.1	(4.0)	0.3	(1.7)	50.7	0.9	51.6
Administrative expenses – ongoing	(34.5)	(3.0)	(0.1)	1.5	(36.1)	(0.2)	(36.3)
Administrative expenses – restructuring	(0.3)	-	-	-	(0.3)	-	(0.3)
Depreciation and amortisation	(5.0)	-	-	-	(5.0)	-	(5.0)
Impairment of investments	-	-	-	-	-	(1.4)	(1.4)
Operating profit/(loss) before provisions	16.3	(7.0)	0.2	(0.2)	9.3	(0.7)	8.6
Losses on investment properties	-	-	(1.9)	-	(1.9)	-	(1.9)
Impairment losses on loans and advances	(8.1)	(8.7)	-	-	(16.8)	-	(16.8)
Provisions for contingent liabilities and commitments	(3.7)	-	-	-	(3.7)	-	(3.7)
Profit/(Loss) on ordinary activities before tax	4.5	(15.7)	(1.7)	(0.2)	(13.1)	(0.7)	(13.8)
Tax on profit/(loss) on ordinary activities	2.3	0.2	1.1	(0.2)	3.4	-	3.4
Profit/(Loss) for the year	6.8	(15.5)	(0.6)	(0.4)	(9.7)	(0.7)	(10.4)

* Interest receivable and similar income and interest expense and similar charges have been restated. See notes 2 and 3 for further details.

Statements of financial position

at 31 March 2011

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Continuing operations £m	Discontinued operations (mortgage broking) £m	Total Group £m
Total assets	8,264.5	1,295.5	117.1	(2,128.1)	7,549.0	-	7,549.0
Total liabilities	7,741.4	1,344.2	94.2	(2,135.3)	7,044.5	-	7,044.5
Capital expenditure	4.4	-	0.3	-	4.7	-	4.7

35. Capital management

Capital is held as the ultimate protection for depositors. The Board sets the internal level of capital with the aim of ensuring capital levels are always above minimum regulatory requirements. Group capital requirements are reviewed on a monthly basis and the results of this monitoring are reported to the Group Capital Committee, Group Risk Committee and the Board.

The Group's capital structure is shown in the table below. For details of the Group's capital management processes see pages 17 to 20 of the Business Review.

Regulatory capital	**Group 2012 £m**	Group 2011 £m
Tier 1		
General reserves	**241.1**	251.3
Permanent interest bearing shares (note 1)	**74.9**	74.9
Profit participating deferred shares	**175.0**	177.3
Intangible assets (note 2)	**(7.5)**	(9.0)
Deductions from Tier 1 capital (note 3)	**(3.5)**	(4.3)
	480.0	490.2
Tier 2		
Revaluation reserve	**3.7**	3.7
Collective impairment allowance	**24.1**	18.9
Contingency against collective provision add back (note 4)	**(10.2)**	(4.4)
Deductions from Tier 2 capital (note 3)	**(3.5)**	(4.3)
	14.1	13.9
Total capital	**494.1**	504.1

Notes
1 Permanent interest bearing shares include any adjustment for unamortised premiums and discounts.
2 Intangible assets do not qualify as capital for regulatory purposes.
3 Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Other deductions are Tier specific.
4 Deduction from the collective provision add back reflecting the proportion of the provision that is disallowable for capital purposes.

Annual Business Statement for the year ended 31 March 2012

1. Statutory percentages

	2012 %	Statutory limit %
Lending limit	**19.1**	25.0
Funding limit	**13.4**	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, non-recourse finance, 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 excluding non-recourse finance.

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

	2012 %	2011 %
As a percentage of shares and borrowings:		
Gross capital	**7.57**	7.58
Free capital	**5.83**	5.86
Liquid assets	**27.64**	21.47
As a percentage of mean total assets:		
Loss for the financial year	**(0.12)**	(0.13)
Management expenses	**0.57**	0.52

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 excluding non-recourse finance, in each case including accrued interest.
- 'Gross capital' represents the aggregate of general reserves, available for sale reserve, revaluation reserve, cash flow hedging reserve, subscribed capital and profit participating deferred shares.
- '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 2012

Name, qualification and date of birth	Role	Date of appointment	Other directorships and interests
John Ainley LLB (Hons), CCIPD 28 September 1956	Non-Executive Director	18 May 2011	Aviva Employment Services Limited Aviva Professional Services (Pty) Limited (South African entity)
Claire Hafner MA, ACA 24 June 1959	Non-Executive Director	1 September 2011	Vocalink
Mark Nicholls MA (Cantab), MBA 5 May 1949	Chairman	1 January 2010	Burcot House Management Limited Northern Investors Company PLC EcoSecurities Group plc Rathbone Brothers Plc Rathbone Investment Management Ltd
Mark Preston BA (Hons), ACIB 11 February 1960	Non-Executive Director	18 May 2011	None
Martin Ritchley FCA, FCIB, Hon DBA (Coventry) 1 July 1946	Deputy Chairman and Senior Independent Director	1 September 2009	The ARC Addington Fund Royal Shakespeare Theatre Trust
Richard Sommers MA (Oxon), ACIB 4 September 1956	Non-Executive Director	1 October 2009	Treasurer and Fellow of Lady Margaret Hall
Colin Walklin BSc, FCA 9 May 1954	Non-Executive Director	20 July 2011	Aida Capital Limited SLTM Limited Standard Life Investments (Corporate Funds) Limited Standard Life Investments (Holdings) Limited Standard Life Investments Limited Standard Life Portfolio Investments Limited
Mark Gibbard BSc, FCA, MCT 31 August 1961	Group Finance Director	16 February 2011	
Andrew Jones BSc (Hons), FCIB, FCIS 21 April 1957	Group Risk Director	24 November 2010	Insignia Finance Limited White Label Lending Limited West Bromwich Homes Limited
Jonathan Westhoff BA (Hons) Fin Servs, FCMA, CGMA, ACIB 11 July 1964	Chief Executive	5 May 2009	Millinet Limited West Bromwich Commercial Limited West Bromwich Homes Limited WBBS Computer Finance Limited

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 on 25 May 2011, Mark Gibbard and Andrew Jones entered into their service contracts on 23 November 2010, on this basis.

For further details of the Executive Directors' service contracts, see the Directors' Remuneration Report on pages 28 to 31.

Documents may be served on any of the above named Directors at the following address: Addleshaw Goddard, Sovereign House, Sovereign Street, Leeds LS1 1HQ.

Senior management	Role	Society and subsidiary directorships
Andrew Conroy BSc (Hons), ACA	Divisional Director, Finance	Millinet Limited CL Mortgages Limited
Paul Field CMS	Divisional Director, Operations	West Bromwich Homes Limited CL Mortgages Limited West Bromwich Mortgage Company Limited
Manjit Hayre	Divisional Director, Credit Risk	
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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 II – Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. Basel II defines the methods by which firms should calculate their regulatory capital requirements to hold sufficient levels of capital to protect the financial system against unexpected losses.

Basel III – In December 2010, the Basel Committee on Banking Supervision issued the Basel III rules text, which presents the details of the strengthened global regulatory standards on bank capital adequacy and liquidity. The standards will be phased in gradually from 2013.

Buffer liquidity – Cash and investments with the UK government (deposits with the Bank of England or holdings of UK Gilts and similar investments) and with supranational institutions. The limit is set by the Financial Services Authority (FSA).

Commercial lending – Loans secured on commercial assets. Commercial assets 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).

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 Tier 1 capital – The highest quality regulatory capital resources, defined by the FSA as general reserves plus profit participating deferred shares less intangible assets and other deductions, including excess impairment provisions and securitisation positions.

Core Tier 1 ratio – Core Tier 1 capital as a percentage of risk weighted assets.

Covered bonds – A type of wholesale funding backed by cash flows from mortgages.

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.

Delinquency – A debt or financial obligation is considered to be in a state of delinquency when payments are overdue. When a person is in arrears, their entire outstanding balance is said to be delinquent.

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, equity and currency risk.

Effective Interest Rate method (EIR) – 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.

Fair value – Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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 firm authorised by the FSA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.

Free capital – The aggregate of gross capital and collective impairment provisions for losses on loans and advances to customers less intangible assets, investment properties and property, plant and equipment.

Funding limit – Measures the proportion of shares and borrowings not in the form of shares held by individuals excluding non-recourse finance.

Gross capital – The aggregate of general reserves, available for sale reserve, revaluation reserve, cash flow hedging reserve, subscribed capital and profit participating deferred shares.

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.

Impaired loans – Loans which have been assessed and there is evidence to suggest that the Group will not receive all of the cash flows or there is an expectation that these will be received at a later date.

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 – At each statement of financial position date the Group assesses whether or not there is objective evidence that individual financial assets (or groups of financial assets with similar credit characteristics) are impaired.

Interest rate risk – Interest rate risk is the risk that the fair value or 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 Basel II 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.

International Swaps and Derivatives Association (ISDA) master agreement – A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions.

Investment securities – Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks.

Investors in People – An accreditation which recognises the support the Group provides for its people.

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.

Liquid assets – Total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities.

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 ratio (LTV) – A ratio which expresses the amount of a mortgage as a percentage of the value of the property. 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.

Management expenses – Management expenses represent administrative expenses. The management expense ratio is management expenses expressed as a percentage of mean total assets.

Market risk – The risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and customer-driven factors will reduce income or portfolio values.

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) – Corporate notes continuously offered by a company to investors through a dealer.

Member – A person who has a share investment or a mortgage loan with the Society.

Mortgage backed securities (MBS) – Assets which are referenced to underlying mortgages.

Net interest income – The difference between interest received on assets and interest paid on liabilities.

Net interest margin – This ratio calculates the net interest income as a percentage of mean assets.

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/issuer can seize the collateral, but the lender's recovery is limited to the collateral alone.

OECD – Used to refer to member countries of the OECD (Organisation for Economic Cooperation and Development). The OECD is an international organisation of countries with highly developed economies and democratic governments. The OECD has 31 member countries including (but not limited to) key European countries, the United States, Canada and Japan.

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 and property rental income).

Permanent interest bearing shares (PIBS) – Unsecured, deferred shares that are a form of Tier 1 capital. PIBS rank behind the claims of all depositors, payables and investing members of the West Brom and rank pari-passu with profit participating deferred shares.

Profit participating deferred shares (PPDS) – A form of unsecured capital that are included as Core Tier 1 capital. PPDS rank behind the claims of all depositors, payables and investing members of the West Brom and rank pari-passu with PIBS.

Prime – Prime mortgages are those granted to the most credit worthy category of borrower.

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 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 – Money loaned to individuals rather than institutions. Residential mortgage lending is secured against residential property.

Residential mortgage backed securities (RMBS) – A category of asset backed securities (ABS) that represent 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 Group is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.

Risk weighted assets (RWA) – The value of assets, after adjustment, under Basel II rules to reflect the degree of risk they represent.

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. A company transfers these assets to a special purpose 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.

Subordinated debt/liabilities – A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors, and investing members (other than holders of PIBS).

Sub-prime – Loans to borrowers typically having weakened credit histories that include payment delinquencies and, in some cases, potentially more severe problems such as court judgments and discharged bankruptcies.

Tier 1 capital – A measure of financial strength. Tier 1 capital is divided into Core Tier 1 and other Tier 1 capital. Core Tier 1 capital comprises general reserves from retained profits and profit participating deferred shares. The book values of goodwill and intangible assets are deducted from Core Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as PIBS are included in other Tier 1 capital (i.e. not Core Tier 1).

Tier 2 capital – Comprises the Group's qualifying subordinated debt and collective impairment allowance (for exposures treated on a Basel II standardised basis). Certain regulatory deductions may be made for the purposes of assessing capital adequacy.

Wholesale funding – The total of amounts owed to credit institutions, amounts owed to other customers and debt securities in issue less balances deposited by offshore customers.

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To find out more, visit your local branch, call us on the number above or visit our website at www.westbrom.co.uk

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