The West Brom has been helping people into their own homes for over 165 years

Annual Report and Accounts

Year ended 31 March 2018

the West Brom

Contents

Key highlights of the 2017/18 financial year

Statutory and underlying profit

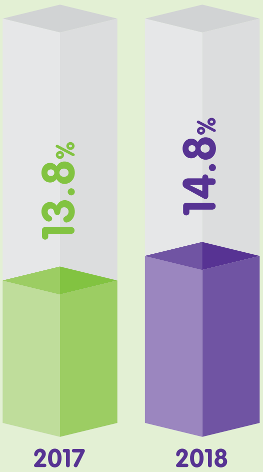
£8.8m

Statutory and underlying profit before tax of **£8.8m** (2016/17: statutory loss of £19.8m, underlying profit of £7.7m), a 14% improvement in underlying performance.

18%

increase in new mortgage lending

Gross residential mortgage advances up 18% to **£837m** (2016/17: £712m). At £265m (2016/17: £167m), new lending to first time buyers was the highest in the Society's history.



Strengthened capital position

14.8%

Strengthened capital position, with a Common Equity Tier 1 (CET 1) capital ratio of **14.8%** (2016/17: 13.8%). Successful modernisation of the capital structure after the year-end date through the issue of Core Capital Deferred Shares, qualifying CET 1 capital instruments.

17%

reduction in commercial loans

17% reduction in non-core commercial loan book, falling to under £0.5bn at 31 March 2018 (2016/17: £0.6bn).

Recognition for our ongoing commitment to members and local communities being Highly Commended in the **Community Services** and Best Regional Building Society categories in the **Mortgage Finance Gazette Awards** for the second year running.

INVESTORS IN PEOPLE | Gold

Achievement of the Gold accreditation standard from Investors in People for our approach to people management.

Chairman's Statement

I am delighted to report that the Society has had another successful year, supporting the financial wellbeing of our members.

Delivering our mutual purpose

Once again we increased new mortgage lending, by some 18%, and increased our total stock of prime owner occupied loans by 13%. Of course, we remain mindful of our commitment to manage down the non-core loans which were originated before the onset of the financial crisis in 2008. The most significant of these, by size and risk profile, were commercial exposures which have now reduced to just £488m, from circa £1.7bn at their peak. In terms of savers, we were pleased to deliver an uplift in interest rates for the first time since 2009, following the Monetary Policy Committee's decision to lift the Bank Rate in November.

Strengthening our capital

The profit delivered in the year has meant that our capital ratios have once again strengthened. Also, as you will read in more detail in the Chief Executive's Review, since the year end the Society completed a very successful modernisation of its capital instruments. This resulted in an overall increase of circa £50m in member reserves for 2018/19. Most importantly, it ensures that the Society has a strong, modern capital base going forward, to ensure it continues to provide savings and mortgages to both the current and future generations of members.

The economy

Last year I focused on the economic and political uncertainty around the 'impact of Brexit' and the 'snap general election'. Indeed, over the past 12 months while the UK's general economic trajectory has continued above the expectations of many at that time, uncertainty remains a core theme.

The weakening of sterling has contributed to ongoing inflationary pressures. The decision to increase interest rates in November of last year has meant that our savers did experience some relief from the long-term downward pressure on their rates. The extent to which further increases can be delivered will, however, depend on the extent to which mortgage rates increase. Due to the low cost funding provided for the market as a whole, via the Term Funding Scheme, new lending mortgage rates in the market in general have not seen increases commensurate with the November 2017 Bank Rate increase.

Turning to the housing market, prices have cooled somewhat with the Halifax House Price Index reporting growth at 2.7% in the year to March, down from 3.8% a year earlier[1]. Regionally, however, the picture has remained mixed with some areas of London witnessing a reduction in house prices, while the Midlands has performed more strongly.

Regulatory matters

The pace of regulatory change across the financial services industry from both national and international authorities can never be overstated.

Late last year the Basel Committee on Banking Supervision announced a number of amendments to the existing Basel III rules on capital, which included quite significant changes in how institutions must assess their capital requirements. We are therefore reassessing the impact of the Society's plans to move to a more advanced methodology, the Internal Ratings Based approach to credit risk capital requirements.

A welcome addition to the regulatory framework this year has been the publication of the Financial Conduct Authority's (FCA's) mission document which provides an insight into how the Regulator's intervention framework guides strategic decisions. As the FCA is one of the very few financial regulators in the world with a core objective to promote competition in the interests of consumers, the Society is proud to be part of a wider mutual sector that offers both product diversity and an individual customer focus.

In May, we saw the implementation of the General Data Protection Regulation (GDPR) which builds on the requirements already in place of the Data Protection Act. The Society fully acknowledges its responsibilities under GDPR and will ensure it continues to securely and respectfully manage members' personal data.

Corporate governance

The principles of mutuality mandate the Board to make decisions that are in the best long-term interests of the membership with decision making supported by a strong and effective system of corporate governance.

Earlier this year the Government set out a range of legislative and business-led measures to improve corporate governance by giving workers and other stakeholders a stronger voice. For the Society, this means our people and our members. As will be explained further in the Chief Executive's review, this year the

[1] Source: Halifax – All Houses All Buyers Monthly UK Halifax House Price Index – Seasonally Adjusted – April

Society will continue to demonstrate our commitment to not only listening to, but acting upon the views of, our members and our people through two exciting new initiatives; the 'Member Council' and the 'Employee Council'. These will provide opportunities for representatives of both groups to meet regularly and discuss issues affecting the Society, and ensure that a breadth of views are available to the Board when making decisions.

To strengthen further the governance culture the Society will, starting at this year's AGM, be offering members a binding vote on the Directors' Remuneration Policy and placing all Directors up for re-election on an annual basis.

I believe firmly that the announcement of these changes demonstrates how seriously the Society takes the role of wider stakeholder engagement and the value of taking into account diverse viewpoints in effective decision making.

Continuing with the subject of diversity, we recently announced the Society's position in respect of the gender pay gap. Whilst the figures demonstrate there is a material gap in the pay between male and female employees, this arises because more males currently occupy senior roles. This does not mean that there is not equality of pay for those who undertake the same job roles. We have already announced our targets for correcting this imbalance, and I am pleased with the progress made in the year, which is very much in line with those targets.

Board matters

I would like to take this opportunity to thank Claire Hafner for her contribution to the Board over the last 6 years. At the same time I would like to welcome Vicky Mitchell to the Board, as a Non-Executive director. Vicky has a strong background in both risk and operations having occupied senior roles with Capital One. This appointment is a further step in ensuring that we have effective succession plans in place in order that we maintain a strong and effective senior leadership team.

I would also like to congratulate Jonathan Westhoff on the successful completion of his role as Chair of the Building Societies Association during the past year.

Looking forward

We have to acknowledge that economic and political uncertainty remain. In an interest rate environment where increases are expected to be small and at a gradual pace, the Society will continue to manage the interest rate position, balancing the needs of both saving and borrowing members.

The Society will continue to invest in core system capabilities to drive both operational efficiencies and enhanced product and service offerings that meet the purpose of a modern mutual building society.

I continue to take great pride in the progress of the Society and would like to thank all colleagues for their professionalism, hard work and dedication. I would also like to thank our members for their continued loyalty and support.

Mark Nicholls
Chairman
30 May 2018

Chief Executive's Review

The Society has again performed well against its mutual purpose.

At £837m residential lending was 18% higher than in the previous period, with lending to first time buyers the highest in the Society's history. For savers we were able to reverse the long-term decline in interest rates by passing on benefits from the first increase in Bank Rate for over 10 years. Although we took the opportunity to raise some long-term funding from institutional investors, which did result in overall retail balances reducing, our lending remains predominantly funded by retail savers. This mutual model of using members' deposits to promote residential lending to those who wish to own their own home has stood the test of time, nearly 170 years in fact for the West Brom and its generations of members.

Performance against our mutual purpose

Although the return to a statutory profit of £8.8m (2016/17: statutory loss of £19.8m) shows a dramatic swing in profitability, this is of course a distorted view given the one-off adjustment required in 2016/17. The prior year results included £27.5m of one-off costs related to reimbursing the interest charged on certain buy to let mortgages. It is therefore more appropriate to measure our progress in terms of the underlying position, whereby profits improved by 14% to £8.8m.

14% increase

in underlying profit before tax (2016/17: £7.7m), to £8.8m

£8.8m

Statutory profit before tax (2016/17: loss of £19.8m)

However, what truly reflects the success of the Society's strategy over the last decade has been returning its activities to those that best reflect our purpose. At 31 March 2008, the mortgage portfolio comprised only 36% lending for the purpose of home ownership, with the remainder being made up of 41% buy to let and 23% commercial loans. Moving forward 10 years, the Board's focus on the back to basics principles of the traditional building society model has fundamentally changed the composition of the loan book, which is now over 56% for home ownership, 34% buy to let and just 10% commercial lending. New residential lending for prime owner occupation has increased for the fifth consecutive year, by 18% to £837m (2016/17: £712m), with balances net of redemptions increasing to £2.7bn (2016/17: £2.3bn). These increased volumes have been achieved despite a fiercely competitive marketplace with historically low mortgage pricing being driven by the very low costs of funding provided under the Term Funding Scheme.

18% increase

in new residential lending (2016/17: £712m), to £837m

Clearly our support for home ownership also means we need to ensure we are able to help those wishing to buy their first house. It is pleasing to see that the Society has again supported an increasing number of first time buyers (nearly 2,000) through a range of products designed to keep initial setup costs to a minimum by offering up to 95% loan to value products with both free valuations and cashback options.

32%

of new mortgages helping first time buyers (2016/17: 23%)

A number of demographic factors have continued to contribute to a decline in mortgage backed home ownership which has been particularly stark amongst younger generations. As set out within our Strategic Review the Society recognises the importance of the role of the UK's housing market in supporting broader economic prosperity and in turn our own members' financial wellbeing. As a building society operating within the mutual sector our role is to ensure the availability of mortgage finance not only to first time buyers, but also those looking to build their own home and those looking to secure affordable borrowing options in retirement. Therefore, over the next year, we plan to expand our product offering to accommodate the changing needs of our borrowers.

The trust shown by our loyal saving members to hold their funds in safe and secure accounts in exchange for a good return underpins the success of our sustainable mutual model. Retail deposits of £4.1bn (2016/17: £4.4bn) represent a healthy 93% (2016/17: 104%) of residential mortgage balances. For savers, the long awaited decision of the Monetary Policy Committee to increase Bank Rate to 0.5% will have provided some good news for those reliant on interest receipts to support living costs or those who wish to grow their capital for a planned purpose or a rainy day. The weighted average savings rate paid by the Society across retail deposits continues to remain above the rate paid across the cash savings market as a whole with a number of competitively priced fixed and variable products launched through online, direct and branch channels. Last year in particular the launch of the Society's competitively priced Help to Buy ISA specifically through our branches illustrates our continued support for those looking to save for their first home in our heartland.

A modernised capital base

In January last year the Society received a challenge from a new minority shareholder of the Society's issued capital as to the eligibility of the Profit Participating Deferred Shares (PPDS) as Common Equity Tier 1 (CET 1) capital. While the Board remained of the unequivocal view that the PPDS met CET 1 requirements in all respects confirmation of this position was sought from the European Banking Authority (EBA). In the meantime the Board continued to act in the interests of members and pursued opportunities to assure the Society's regulatory capital position irrespective of any response from the EBA. To this end constructive engagement was held with a different group of holders, representing a majority of the PPDS and nearly half of the Permanent Interest Bearing Shares (PIBS). Following these discussions, it became clear that a modernisation of the Society's capital base would be appropriate regardless of any EBA decision.

Consequently, the Society announced a Liability Management Exercise (LME), which introduced two new capital instruments, Core Capital Deferred Shares (CCDS) and Subordinated Tier 2 Notes. This restructuring was completed in April, just after the financial year end, and resulted in an increase in member reserves of circa £50m. There was no material change in the Society's Common Equity Tier 1 or total capital ratios.

Our Common Equity Tier 1 ratio ended the year at 14.8% (2016/17: 13.8%) and our total capital ratio at 16.7% (2016/17: 16.0%). This is a strong position, enabling the Society to continue the success of recent years.

14.8%

Common Equity Tier 1 capital ratio
(2016/17: 13.8%), up 1.0%.

Responsible lending, responsible funding

With significant growth in residential lending it is also pleasing to report that residential mortgage arrears have fallen for the fifth consecutive year. This performance is testament to the Society's capability to assess borrowers' creditworthiness supported by robust affordability models, scorecard processes and individual underwriting methods. Furthermore, the more seasoned residential loans that remain from the period leading up to the financial crisis are now performing well following a period of careful management. Core residential arrears ended the year at 0.38% (2016/17: 0.63%), below the UK Finance average of 0.81%.

I have already referred to the benefit of the Bank Rate increase for the Society's saving members although, of course, a number of borrowers will have seen an increase in their mortgage interest payments. However, with the vast majority, some 87%, of new lending on a fixed rate very few new borrowers are exposed to any immediate impact of Bank Rate increases. When ultimately borrowers do face the potential of paying a higher rate at the end of their initial fixed rate deal, we ensure that at the point of agreeing the loan that the mortgage is still affordable should there be a need to pay a considerably higher interest rate – currently more than three times the level of interest initially being paid.

Most new borrowers prefer the security of knowing what their monthly repayments will be by fixing their mortgage rate.

As a mutual, the Society remains committed to funding the majority of new residential lending growth with members retail deposits; however the quality of the lending portfolio also provides opportunities to source long-term wholesale funding through the issuance of Residential Mortgage Backed Securities (RMBS) where it is economically sensible to do so. To this end I am pleased to report that in January the Society successfully raised £350m of low cost securitisation funding - the first time the Society has transacted in the market in five years, illustrating the confidence external investors have in the Society's ability to originate mortgage lending responsibly from good quality borrowers.

Non-core progress

Our determination to offer high quality products and services tailored to the needs of members has underpinned the commitment we made in 2009 to exit those areas that did not fit with this fundamental principle. Coming into the financial crisis of 2008/9 the Society's exposure to the commercial real estate sector stood in the region of £1.7bn. We have been conducting a carefully managed exit from this high risk exposure such that at the year end this exposure had reduced to £488m, 17% lower than the previous year and over 70% lower than the peak position. Furthermore, of the outstanding exposure some £53m is held in securitisation vehicles which in effect, transfers the risk out of the Society. Of the remaining balance sheet exposure £254m is being managed by a Law of Property Act Receiver or Administrator, in order to achieve the best possible outcome, with £34m set aside by way of provision.

Our members' financial wellbeing

The Society strives to offer high quality products, in a responsible way, to support the financial wellbeing of our circa 434,000 members. The product range offered by the Society allows members to build financial resilience by maintaining a personal savings buffer against unexpected events and/or by continuing to build equity in their home funded through a mortgage. In addition to these core offerings the Society continues to offer a wide selection of auxiliary products from household insurance helping customers protect their homes to later life planning and the financial advice offering supported by our partners Wren Sterling.

Our communities

We take our role as a regional building society seriously and continue to make a conscious effort to assist local communities, especially in our heartland area where our branches operate. This year the Society has partnered with The Kaleidoscope Plus Group who work tirelessly throughout the region to help people achieve better mental and emotional health. Through numerous fundraising events, the Society raised an impressive £30,000 for Kaleidoscope Plus. I would like to take this opportunity to thank Kaleidoscope Plus as our charity of the year for 2017/18 with funds raised by the Society going towards the charity's Safe Spaces initiative, which supports people affected by suicide. As part of our year-long partnership, Kaleidoscope Plus also worked with a number of our people on mental health awareness training.

The West Brom's support does not end with financial donations. This year, some 115 of the Society's people actively engaged in our popular volunteering programme where various teams from the Society supported a variety of local community projects. Our financial awareness programme 'The Money-Go-Round' continues to go from strength to strength, promoting the importance of financial awareness for the next generation. I am proud to report that these awareness sessions have now been delivered to 20 schools all within the Midlands Region.

Branch managers have spent time with local school children to talk about the value of money and raise awareness of good money management.

Along that same theme, earlier this year the Society announced plans to bring our regional heritage to life through a unique partnership with the Black Country Living Museum. This new project, due for completion in 2022, will see construction of a replica West Brom 1940s branch as part of a new museum development. This educational facility will enable visitors to gain a contextual understanding of how the principles of mutuality supported the home ownership aspirations of local communities – the same premise from which the Society functions today.

Promoting engagement

Over recent years I have frequently talked about the importance of maximising the feedback we get in order to ensure we understand what will best support our members, and we are clear on what best enables my colleagues to deliver the best service we can. As referenced by the Chairman's Statement we have decided to make a further significant step and move beyond the initiatives we have launched in recent years by introducing two new important groups: a Member Council and an Employee Council.

Understanding what matters to both members and colleagues will help with decision making and setting our future strategy.

Both of these will be asked to consider issues that directly affect the Society, its members and how we deliver our products, services and community responsibilities, to contribute thoughts and provide perspectives that will be taken into account by the Executive and the Board when making key decisions. Recruitment for these two important groups is expected to be before the end of 2018.

A vibrant future based on a traditional approach

Over what is now nearly 170 years the Society has existed through times of immense upheaval and changing thoughts on how core financial products and services can be delivered. Thriving through these times means that the Society has remained constantly modern and relevant. Perhaps we are now facing as much change and uncertainty as has existed for many periods throughout our history, not just in relation to the economy and how we come through Brexit, but also technology and the drive to digitalisation. These are all challenges we are set to take on and ensure we remain relevant for our members, present and future.

This will involve considerable change, principally in our core technologies, but we have started on this journey. We have ensured we have the capital strength, have reshaped the Society's business mix to be very clear as to who we are here to serve and have resourced ourselves to progress the next phase of technology change.

Of course, all the achievements I have detailed above are a consequence of the people who make it all happen, my colleagues. I would like to take the opportunity to thank them all for their commitment, skills and desire to deliver their best at all times.

Jonathan Westhoff
Chief Executive
30 May 2018

Strategic Report

Our strategy is focused on the simple premise of delivering our purpose – supporting the financial wellbeing of our members by providing a safe and good return on the savings they entrust with us and promoting home ownership through responsible lending.

Our strategy

Our purpose guides the development of our business model, primary activities and strategic priorities.

We deliver saving, investment, mortgage and insurance products through our 37 branches, direct and online services and intermediary partnerships. Our broad range of savings and investment products aims to offer simplicity of terms, security of deposit, and a good rate of return. Savings members' deposits support the Society in its aim of promoting home ownership for borrowers who can evidence their ability to service their commitments. Providing residential mortgages, funded in the main by member deposits, remains firmly allied to our mutual model.

Our strategy recognises the importance of the role of the UK housing market to the wider economy, society and in turn to meet the ambitions of home ownership for our membership. Our mortgage product range seeks to cater for a range of borrower requirements in support of a market where genuine choice is available to all prime residential borrowers reflective of individual borrower needs.

The Group also holds a portfolio of residential properties to generate rental income - in doing so the Board acknowledges the Group's capacity as a responsible landlord.

The Society's ability to offer high quality products and services continues to be supported by the effective management of non-core assets with significant progress made. Since 2009, we have been managing down these non-core books in an economically responsible manner. The work-out of non-core assets remains a key strategic objective.

Allied to the mutual model the Society will continue to make long-term strategic investments in systems to ensure product, service and supporting capabilities continue to meet the needs of both current and future members.

Our business model

As a result of the Society's strategic objectives our business model is split into core and non-core activity. This distinction allows the Society to focus strategic intent on the delivery of our purpose through Retail and Property segments whilst maintaining a concentrated effort to manage the orderly run-off of non-core activity.

The Group is organised into three main business segments:

Retail - retail saving products offered through branch, direct and online with residential lending delivered through branch, direct and intermediary channels. We also offer a range of investment and insurance products through our third-party partnerships in support of our customers' broader financial wellbeing. The Retail segment includes historic second charge lending which is deemed non-core and is in run-off.

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

Commercial - the historic provision of finance for commercial real estate investment which is deemed strategically as non-core. This segment will also include responsible lending to buy to let limited companies in support of the UK's private rented sector – this activity will be considered as core.

The above Group level business model is supported by central functions which provide Finance, HR, IT, Compliance, Risk Management and Change capabilities.

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

Purpose

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

Primary Activities

Savings and Investments

Mortgages and Protection

Strategic Priorities

Security

- We generate and maintain sufficient capital and liquidity to enable us to deliver our business plans.
- We continue to exit our legacy positions whilst balancing speed with the economic cost.
- We have a clear, transparent approach to risk management.

Members

- We make decisions that are in the interests of our current and future membership as a whole.
- We consider the impact of actions on customer outcomes, customer experience and other stakeholders.

Efficiency

- Delivery of member value underpins all components of our operating model.
- Existing resources are leveraged to deliver acceptable returns.
- We seek to exploit technology at every stage of the operating model to reduce the cost of service delivery.

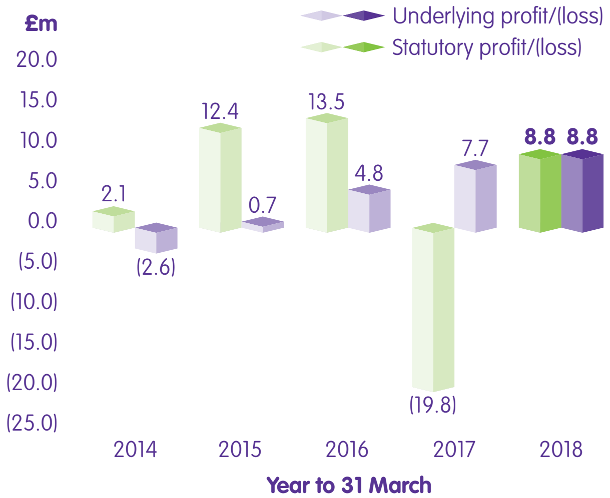
Key performance indicators

The Society monitors its progress against strategic objectives using a wide range of financial and non-financial key performance indicators (KPIs). The following sections of the Strategic Report clearly define these KPIs and describe the Society's performance against each.

Review of 2017/18

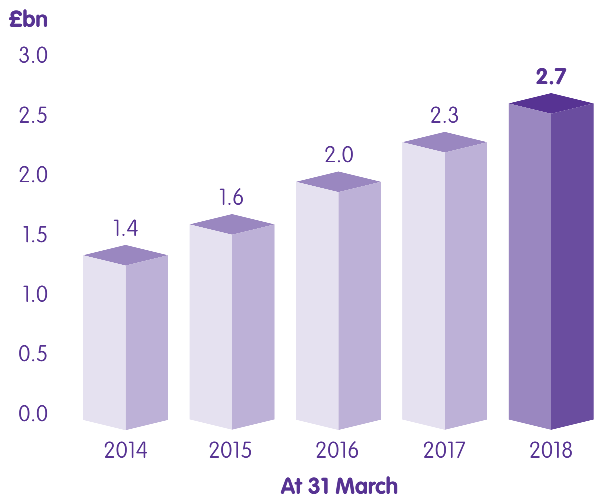
Pre-tax performance - The Board's focus on strategic priorities translated to a 14% improvement in underlying performance. Statutory and underlying profits before tax for the year ended 31 March 2018 were £8.8m (2016/17: statutory loss of £19.8m, underlying profit of £7.7m). There was also an uplift in net interest margin from 0.95% to 0.96%.

Profit/(Loss) before tax



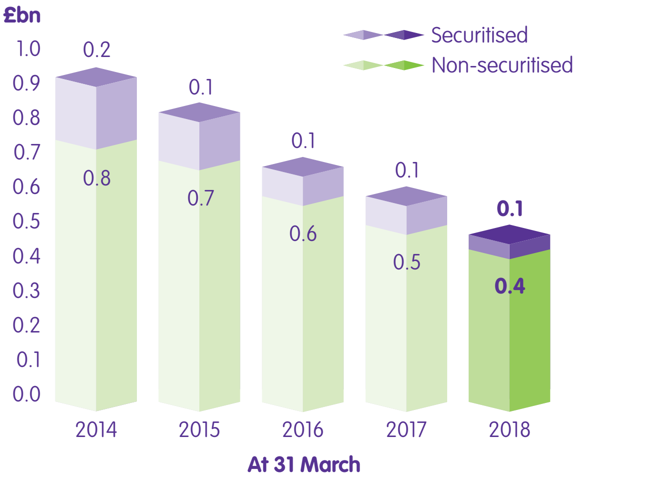
Lending - Delivering against the Society's core purpose of promoting home ownership, gross residential lending increased to £837m (2016/17: £712m). 32% of mortgage advances in the year were made to first time buyers (2016/17: 23%), demonstrating our ongoing commitment to supporting those looking to purchase their first home.

Prime owner occupied mortgage balances



Exiting non-core positions - Commercial exposures, which are considered non-core, continued to be managed down with a reduction of 17% in the year. Total commercial mortgage balances have reduced from £1.7bn in 2007/8 to just £0.5bn at 31 March 2018, of which £0.1bn was securitised thereby transferring the risk out of the Group.

Commercial lending balances*



*Commercial lending balances secured on commercial and residential property

Capital – The profit for the year, combined with effective management of the capital base, saw the Group's Common Equity Tier 1 (CET 1) ratio rise to 14.8% (2016/17: 13.8%). The Group leverage ratio of 6.9% (2016/17: 6.8%) remained one of the highest in the bank and building society sector.

Shortly after the year-end, in April, the Society completed a restructuring of its capital, modernising its structure through the issue of Core Capital Deferred Shares (CCDS). This restructure involved the conversion of the Society's profit participating deferred shares (PPDS) and exchange or tender of 88% of its permanent interest bearing shares (PIBS). The Society's CET 1 ratio will not be materially changed by this restructure which will provide longer-term benefits to its members, improving the CRD IV fully loaded total capital ratio by 1%.

Performance overview

KEY performance indicators

The statutory and underlying results before tax are used to monitor the performance of the Group. The statutory result before tax is the most commonly used measure of profitability. However, where this includes one-off items that are not considered to reflect the continuing profitability of the Group, these items are excluded from underlying results to present a meaningful ongoing performance measure.

The Board assesses the Society's performance using the results before tax at both a total Group and individual business division level as this presents a more transparent view of the performance of the core and non-core elements of the Society.

The statutory profit before tax of £8.8m (2016/17: loss of £19.8m) illustrates the Society's capacity to deliver an acceptable level of profits in a highly competitive environment. The prior year results included £27.5m of one-off costs related to reimbursing the interest charged on certain buy to let mortgages.

The tables below show a comparison of the underlying performance, excluding the impact of the buy to let reimbursement. Underlying net interest income and pre-tax profit have each improved against the comparative period, by 3% and 14% respectively, evidencing the strength of the core business model:

Year to 31 March 2018 Underlying performance

	As reported £m	BTL case impact £m	Underlying £m
Net interest income	**55.5**	-	**55.5**
Profit before tax	**8.8**	-	**8.8**
	%	**%**	**%**
Net interest margin	**0.96**	-	**0.96**

Year to 31 March 2017 Underlying performance

	As reported £m	BTL case impact* £m	Underlying £m
Net interest income	55.3	(1.2)	54.1
(Loss)/Profit before tax	(19.8)	27.5	7.7
	%	%	%
Net interest margin	0.95	(0.02)	0.93

*2016/17 included 2 months of additional interest receivable which was returned to borrowers following the overturning of the buy to let case. This was deducted from net interest income to give a like-for-like comparison.

Overview by business division

Year to 31 March Underlying profit/(loss) before tax by division

	2018 £m	2017 £m
Retail	**8.8**	10.6
Commercial	**(4.8)**	(9.3)
Property	**4.8**	6.4
Total Group underlying profit before tax	**8.8**	7.7

Retail

The Retail segment's core activities are residential mortgage lending and the provision of retail savings products.

Notwithstanding fierce competition in the mortgage markets, performance has remained strong, having benefitted from the growth in new lending, strong control over the Society's cost base and the availability of low cost funding via Bank of England initiatives. The segment profit of £8.8m (2016/17: £10.6m) is after impairment credits of £0.1m (2016/17: £3.5m), excluding which segment profitability improved by 23% year on year. The level of impairment provision is informed by a number of account-specific and wider economic factors, including house price inflation assumptions.

Commercial

The Group has continued its orderly withdrawal from the non-core commercial property market with notable success. Balances fell 17% from £588m to £488m during the year, with the Group's remaining exposure now £435m (2016/17: £515m), after taking the impact of securitisations into account.

The underlying loss before tax for the segment of £4.8m (2016/17: £9.3m) reflected a reduction in the book and was largely driven by impairment charges of £8.0m (2016/17: £11.1m), partially offset by positive fair value movements on derivatives which mitigate interest rate risk for certain non-performing commercial loans. These losses provide evidence of the portfolio's ongoing vulnerability to the challenges presented by the wider economy.

Since the year end the Society's subsidiary, West Bromwich Commercial Limited, has entered the limited company buy to let market, making finance available to responsible providers of private rental accommodation in the UK.

Property

Via subsidiary company, West Bromwich Homes Limited, the Society provides access to residential housing predominantly in the West Midlands, the South West and South Wales.

The divisional profits of £4.8m (2016/17: £6.4m) were generated by net rental income from the residential properties held and an increase in the market value of these properties. The latter resulted in a revaluation gain of £3.8m compared with £5.4m in the previous year.

Financial performance – Group

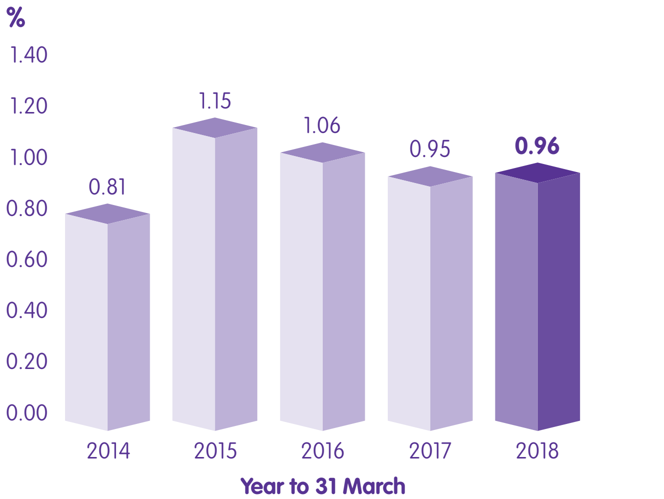
Net interest margin

KEY performance indicators

Net interest margin is calculated as net interest income expressed 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.

Net interest margin



There was a slight upwards movement in the net interest margin from 0.95% in 2016/17 to 0.96% at the current year end date.

It is not a strategic aim to maximise interest margin, rather to maintain it at a level adequate to cover the operational and capital costs of running a modern, customer focused and sufficiently capitalised organisation. Margin management involves balancing the needs of borrowing and saving members and making investments to support their long-term financial wellbeing.

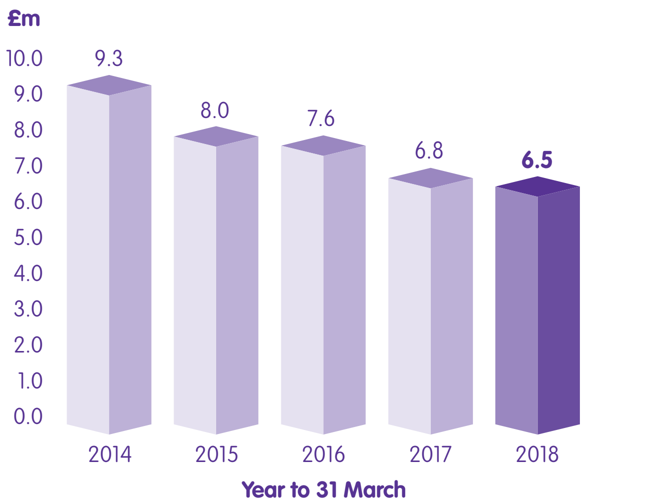
A number of counterbalancing factors impacted the reported net interest margin. Residential mortgage yields were driven down by increased competition in the mortgage market despite an increase in Bank Rate by 0.25% to 0.50% in November 2017. The reduction in the buy to let book and commercial lending balances also reduced interest income. This was more than offset by lower overall funding costs, including the benefits from utilising the Bank of England's Term Funding Scheme (TFS) during the year, and growth in owner occupied residential lending. The highly competitive mortgage market is, however, expected to exert pressure on margins for some time to come.

Other income

KEY performance indicators

The Board monitors other income in absolute terms. 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



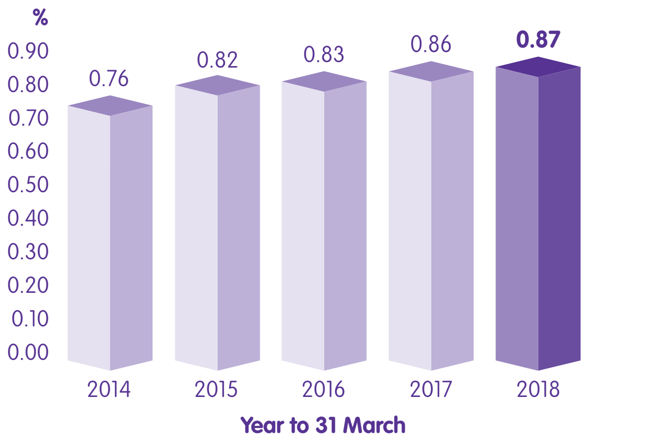
Other income of £6.5m (2016/17: £6.8m) comprised insurance, investment and protection commissions, together with rental income earned by West Bromwich Homes Limited in its capacity as a responsible landlord.

Management expenses

KEY performance indicators

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.

Management expenses ratio



Management expenses of £50.7m (2016/17: £50.1m) included a £1.5m increase in depreciation due to continued investment in our IT systems and infrastructure, as required to operate in a rapidly changing environment. Excluding depreciation charges, management expenses reduced by 2% (circa 4% in real terms, after taking inflation into account).

Management expenses include £0.3m of legal costs relating to the need for the Society to obtain external advice in response to the challenge to its PPDS qualifying as CET 1 capital explained in the Chairman's Statement. The costs of £2.7m associated with the Liability Management Exercise, a post balance sheet event, will be recognised through adjustments to the Society's capital.

The management expenses ratio increased slightly to 0.87%, in comparison with 0.86% in the previous year.

Continued spending on IT capability and security means the Society is well placed to deliver against the expectations of its current and future membership. Operational efficiency will remain a strategic priority, being fundamental to the enhancement of long-term member value.

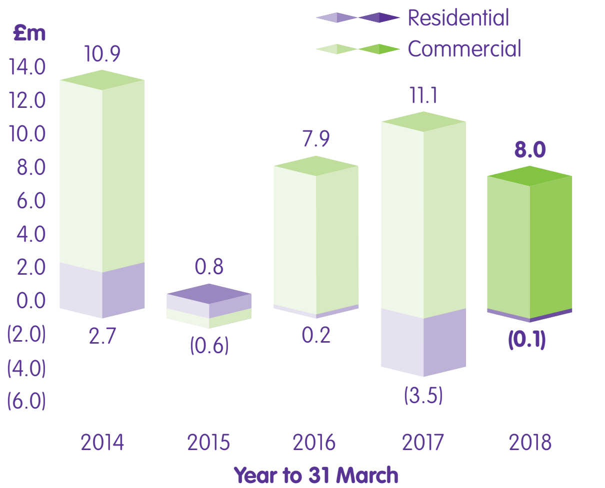
Impairment provisions on loans and advances

KEY performance indicators

The Board monitors the underlying level of impairment provisions, calculated as the absolute charge less offsetting fair value movements on derivatives used to hedge impaired loans. The indicator measures the credit risk performance of the assets (i.e. 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/(credit) for impairment losses on loans and advances



Residential impairment credits of £0.1m (2016/17: £3.5m) were as expected, given the overall high credit quality of the residential prime owner occupied and buy to let portfolios. Residential loss allowances held on the balance sheet at 31 March 2018 were £13.2m (2016/17: £16.3m).

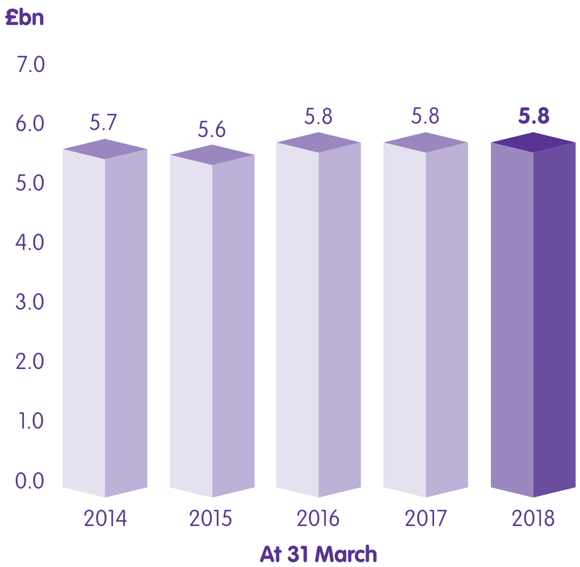
During the year, the Group incurred commercial impairment costs of £8.0m (2016/17: 11.1m), with provisions of £42.1m (2016/17: £39.4m) now set aside for losses on commercial mortgages. The ratio of provisions to commercial exposures was 8.6%, compared with 6.7% in the prior year. The level of coverage is considered appropriate for this portfolio, which has historically proved itself susceptible to any downturn in the economic environment. At 31 March 2018, 55% (2016/17: 56%) of commercial balances were being managed by a Law of Property Act Receiver (LPAR), with a view to achieving the best possible outcome in exiting the exposures.

As explained more fully in note 1 to the Accounts, the Group is required to adopt IFRS 9 'Financial Instruments' with effect from 1 April 2018. Under this new accounting standard, impairment must be measured on an expected loss basis, rather than the incurred loss approach prescribed by its predecessor IAS 39. The effect on residential provisions is not expected to be significant, whereas commercial provision requirements will increase by an amount in the region of £15m based on the revised methodology.

Financial position

The Group reported a stable total assets position, with the impact of new mortgage lending counterbalanced by the desired reduction in the buy to let and non-core commercial books.

Group total assets

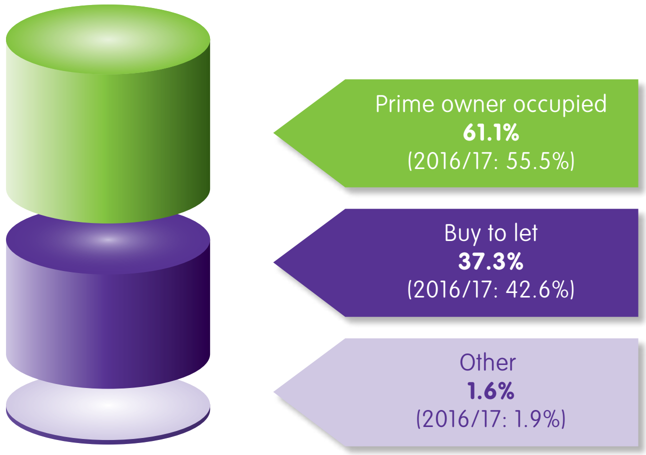


Residential loans and advances

The Society advanced £837m (2016/17: £712m) of prime owner occupied mortgages in the period, 18% more than in the previous year and the highest gross lending figure since re-entry to the mortgage market in 2012/13. The Society extended the support offered to first time buyers with 32% (2016/17: 23%) of new mortgage loans being made to customers wishing to take their first step onto the property ladder.

As shown in the illustration which follows, the Society' lending policies have been effective in rebalancing the mortgage portfolio to increase the proportion of prime owner occupied loans.

Analysis by lending type at 31 March 2018



With its branch, direct and intermediary distribution channels, the Society is able to provide nationwide access to its mortgage products. The table below indicates that the residential loan book is suitably diversified to reduce geographical concentration risk.

At 31 March Residential loans analysis by region

	2018 %	2017 %
East Anglia	**3.0**	2.9
East Midlands	**10.3**	9.8
Greater London	**11.9**	13.1
Northern Ireland	**0.1**	0.1
North	**4.3**	3.9
North West	**12.5**	11.7
Scotland	**2.4**	2.7
South East	**16.5**	17.7
South West	**8.3**	8.3
Wales	**5.0**	4.9
West Midlands	**16.3**	16.7
Yorkshire	**9.4**	8.2
Total	**100.0**	100.0

KEY performance indicators

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 as a proportion of the total number of loans.

At 31 March 2018 Group arrears

	Total balances £m	3 months+ %
Prime owner occupied	**2,677.5**	**0.45**
Buy to let	**1,637.1**	**0.17**
Other	**56.6**	**3.22**
Core residential	**4,371.2**	**0.38**
Second charge lending	**14.8**	**7.94**
Total residential	**4,386.0**	**0.53**

At 31 March 2017 Group arrears

	Total balances £m	3 months+ %
Prime owner occupied	2,349.6	0.70
Buy to let	1,803.6	0.30
Other	63.6	6.81
Core residential	4,216.8	0.63
Second charge lending	18.3	8.58
Total residential	4,235.1	0.81

At 0.38% (2016/17: 0.63%), 3 months plus arrears for the core, first charge residential books continue to track below the UK Finance average of 0.81%. Sustained low levels of unemployment, a conservative risk appetite and proactive credit management practices were all drivers for the strong arrears performance in the current and comparative periods.

As explained in previous years, the Society engages in forbearance activities to support borrowers experiencing genuine financial hardship thereby enabling them to remain in their homes, where this action is not expected to increase the level of debt in the long term. Examples of such forbearance measures are temporary reductions to contractual payments, interest capitalisation and term extensions. The Society's forbearance activities are described further in note 32 to the Accounts.

Commercial loans and advances

The Board has persevered with its longstanding strategy to de-risk the balance sheet by exiting the commercial property sector in a manner which minimises the losses incurred in doing so. This action resulted in a decrease in commercial balances, from £588m to £488m, of which £53m (2016/17: £73m) is held within structured entities for which there is no remaining risk of loss to the Group.

The Group's commercial loans are spread across a number of industry types, as shown in the analysis overleaf.

At 31 March Commercial loans	**2018 £m**	2017 £m
Healthcare and leisure	**117.6**	139.4
Industrial and warehouse	**17.1**	23.3
Office	**26.2**	35.1
Retail	**275.7**	305.4
Residential property	**17.9**	18.7
Other	**0.2**	21.3
Fair value adjustments	**33.3**	44.3
Total	**488.0**	587.5

Funding

KEY performance indicators

The key funding measure that the Board uses to assess the risk in its funding base is the wholesale funding ratio. The wholesale funding ratio measures the proportion of total Society shares and borrowings (including non-recourse finance) 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.

Aligned to the principles of mutuality, the Society is primarily funded by retail deposits.

The balance of our funding requirement is derived from wholesale markets. A level of non-retail funding serves to mitigate the risk which would arise from relying a single source to satisfy our residential lending and liquidity holding obligations. In particular, securitisation issuances can provide cost-effective term funding with repayments matched to receipts from the underlying mortgage pools.

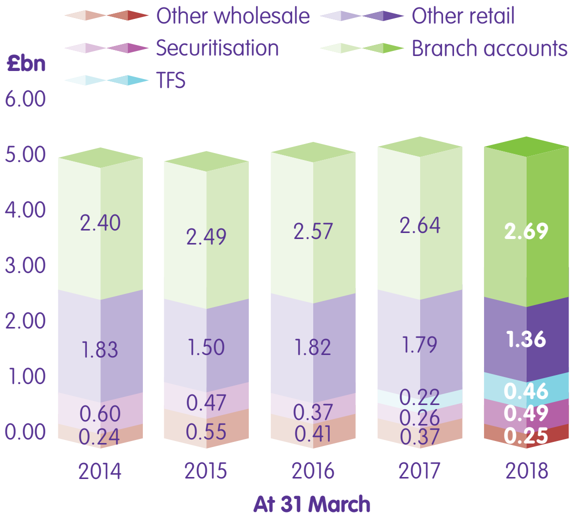
At 31 March 2018, 77.2% (2016/17: 84.0%) of the Group's funding was made up of retail savings balances which totalled £4.1bn (2016/17: £4.4bn). The proportion of the retail portfolio represented by branch accounts rose from 59.6% to 66.4% in the year.

The wholesale funding ratio increased to 22.8% (2016/17: 16.0%) over the period. Of the £1.2bn (2016/17: £0.8bn) wholesale funds, £0.5bn (2016/17: £0.3bn) related to securitisation issuances. During the year, the Society raised £350m from a residential mortgage backed securitisation transaction which was very well received by the markets.

Along with other mortgage lenders, the Society participated in the now closed Term Funding Scheme (TFS), which was launched by the Bank of England in 2016/17 to support the industry by providing low cost four year funding.

The graph below illustrates the composition of the Group's funding portfolio.

Funding balances



Liquidity

KEY performance indicators

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

- *Liquidity Coverage Ratio (LCR) - high quality liquid assets as a proportion of stressed cash outflows over the next 30 days; and*
- *Net Stable Funding Ratio (NSFR) - the ratio of available stable funding to required stable funding, representing a longer-term liquidity measure than the LCR.*

Liquid assets allow the Society to fulfil its lending and other financial obligations as they fall due.

The liquidity portfolio is carefully managed to exceed all thresholds set by regulators whilst maintaining operational efficiency. Surplus liquidity is not desirable because it typically generates lower returns than it costs to fund. To negate this, the Society's liquid resources include off-balance sheet assets which count towards regulatory requirements, being readily convertible to cash, without the high costs associated with on-balance sheet holdings.

In accordance with Treasury policy, all investment securities held during the current and prior years were rated at least single A or held with a Globally Systemically Important Counterparty. No impairment charges have ever been incurred against the Society's liquidity portfolio.

The tables below details the liquid assets held on the Group balance sheet at 31 March.

At 31 March 2018 Liquidity portfolio

	£m	%
Cash and balances with the Bank of England	**318.1**	**42.0**
Supranationals	**65.3**	**8.6**
Covered bonds	**139.8**	**18.5**
Mortgage backed securities	**89.6**	**11.8**
Other securities - rated single A or better	**17.1**	**2.3**
Subsidiary/other liquidity	**127.3**	**16.8**
Total liquidity	**757.2**	**100.0**

At 31 March 2017 Liquidity portfolio

	£m	%
Cash and balances with the Bank of England	287.6	33.7
Supranationals	89.7	10.5
Covered bonds	137.8	16.1
Mortgage backed securities	111.6	13.1
Other securities - rated single A or better	45.8	5.4
Subsidiary/other liquidity	181.3	21.2
Total liquidity	853.8	100.0

At 31 March 2018, the Society's LCR ratio, which measures its ability to meet cash outflows in the event of a stressed scenario was 194% (2016/17: 127%), compared with a regulatory minimum of 100%.

Based on the Society's current interpretation of the net stable funding ratio (NSFR) requirements, introduced by CRD IV but not yet finalised, the Society's NSFR was comfortably above the regulatory minimum.

Capital

Capital is held to protect members' interests. The Board oversees a robust capital risk management framework which ensures that capital ratios exceed regulatory minima at all times.

KEY performance indicators

Common Equity Tier 1 (CET 1) capital is the strongest form of capital for any financial institution.

The primary indicator for monitoring capital is considered to be the CET 1 ratio, calculated as CET 1 capital divided by risk weighted assets.

In addition CRD IV has introduced the simpler non-risk based leverage ratio as a supplementary indicator. The leverage ratio is calculated as Tier 1 capital divided by total leverage ratio exposure. The relative simplicity of this measure is both a strength and a weakness. It removes the subjectivity associated with determining the risk weighting to be applied to each asset class, which can involve particularly complex models for the larger banks. In doing so, it effectively applies the same risk weighting to all asset classes when clearly the risks are not the same. The table that follows includes both the Society's CET 1 and leverage ratios. Figures have been quoted applying the current CRD IV transitional rules and also showing the full impact of CRD IV without the transitional rules.

At 31 March

	Notes	Transitional CRD IV rules 2018 £m	Full implementation of CRD IV 2018 £m	Transitional CRD IV rules 2017 £m	Full implementation of CRD IV 2017 £m
Common Equity Tier 1 capital					
General reserves		**215.8**	**215.8**	211.0	211.0
Revaluation reserve		**3.4**	**3.4**	3.5	3.5
Available for sale reserve (AFS)		**0.8**	**0.8**	1.7	1.7
Cash flow hedging reserve		**-**	**-**	(0.7)	(0.7)
Profit participating deferred shares		**175.0**	**175.0**	173.0	173.0
Common Equity Tier 1 prior to regulatory adjustments		**395.0**	**395.0**	388.5	388.5
Regulatory adjustments:					
Cash flow hedging reserve	1	**-**	**-**	0.7	0.7
Intangible assets and goodwill	2	**(15.3)**	**(15.3)**	(13.3)	(13.3)
Deferred tax asset relating to operating losses	3	**(8.7)**	**(8.7)**	(8.9)	(8.9)
Other adjustments		**3.2**	**3.2**	1.0	1.0
Common Equity Tier 1 capital		**374.2**	**374.2**	368.0	368.0
Additional Tier 1 capital					
Permanent interest bearing shares (PIBS)		**75.0**	**75.0**	75.0	75.0
Regulatory adjustments:					
Amortisation of PIBS under transitional rules	4	**(45.0)**	**(75.0)**	(37.5)	(75.0)
Total Tier 1 capital		**404.2**	**374.2**	405.5	368.0
Tier 2 capital					
Collective provision		**16.3**	**16.3**	22.1	22.1
Contingency against collective provision add-back		**-**	**-**	(2.5)	(2.5)
Total capital		**420.5**	**390.5**	425.1	387.6
Risk weighted assets (RWA)					
Retail mortgages		**1,620.3**	**1,620.3**	1,594.3	1,594.3
Commercial loans		**523.2**	**523.2**	654.4	654.4
Treasury		**63.7**	**63.7**	95.7	95.7
Other		**178.7**	**178.7**	176.1	176.1
Market and counterparty credit risk		**36.2**	**36.2**	47.8	47.8
Operational risk		**101.0**	**101.0**	95.9	95.9
Total risk weighted assets		**2,523.1**	**2,523.1**	2,664.2	2,664.2
Total exposure for leverage ratio		**5,885.2**	**5,885.2**	5,936.3	5,936.3

At 31 March

	Notes	Transitional CRD IV rules 2018 %	Full implementation of CRD IV 2018 %	Transitional CRD IV rules 2017 %	Full implementation of CRD IV 2017 %
Common Equity Tier 1 (as a percentage of RWA)		**14.8**	**14.8**	13.8	13.8
Tier 1 (as a percentage of RWA)		**16.0**	**14.8**	15.2	13.8
Total capital (as a percentage of RWA)		**16.7**	**15.5**	16.0	14.5
Leverage ratio		**6.9**	**6.4**	6.8	6.2
Reconciliation of total assets as disclosed in the Statement of Financial Position to the leverage ratio exposures					
		£m	**£m**	£m	£m
Total assets		**5,781.5**	**5,781.5**	5,830.8	5,830.8
Mortgage pipeline and committed facilities	5	**62.0**	**62.0**	72.1	72.1
Common Equity adjustments relating to assets	6	**(20.8)**	**(20.8)**	(20.5)	(20.5)
Netted derivative adjustment		**(22.4)**	**(22.4)**	(37.9)	(37.9)
Repurchase agreements and Potential Future Credit Exposure for swaps	7	**84.9**	**84.9**	91.8	91.8
Leverage ratio exposure		**5,885.2**	**5,885.2**	5,936.3	5,936.3

Notes

1. The cash flow hedging reserve is not included in capital.
2. A full deduction is made from CET 1 for intangible assets and goodwill.
3. Under the rules of CRD IV (transitional and on full implementation) deferred tax assets relating to previous operating losses are deducted from capital.
4. Under the transitional rules applicable to the current year, 60% of the value of PIBS is deducted from Tier 1 capital. Under the transitional rules the amortisation deduction is increased by 10% p.a. every 1 January through to 2021, with the final 10% deducted on 5 April 2021, the earliest call date for the PIBS.
5. A 50% weighting is applied to mortgage pipeline and committed facilities assuming that in practice these retail commitments will not be cancelled.
6. The regulatory adjustments above include deductions relating to other assets which are also deducted from the total assets in the leverage calculation.
7. Repurchase agreements represent the extent to which collateral provided on repurchase agreements exceeds the amount borrowed.

The improved Common Equity Tier 1 (CET 1) ratio of 14.8% (2016/17: 13.8%) and strong leverage ratio of 6.9% (2016/17: 6.8%) serve as positive indicators of the West Brom's financial resilience in terms of its ability to absorb unexpected losses. Indeed the Society's current levels of capital are expected to be sufficient to meet the forthcoming Minimum Requirement for Own Funds and Eligible Liabilities (MREL) regulation, which prescribes how much capital a financial institution must hold to absorb losses and, if necessary, recapitalise a firm after resolution.

As communicated last year, and referred to in the Chief Executive's Review, an investor challenge prompted the Society to seek clarification from the European Banking Authority (EBA) on the eligibility of its Profit Participating Deferred Shares (PPDS) to count as CET 1 capital.

In March 2018, the Society announced the launch of its liability management exercise (LME) to modernise its capital structure through issues of financial instruments called Core Capital Deferred Shares (CCDS). CCDS are instruments specifically designed to comply with the CET 1 capital eligibility criteria under the current prudential rules. The Society invited professional holders of PPDS to exchange their holdings for a combination of CCDS and 11% Subordinated Tier 2 Notes (Tier 2 Notes). Professional investors holding PIBS were invited to exchange their holdings for a combination of CCDS, Tier 2 Notes and cash. Due to legal restrictions on sales of CCDS and Tier 2 Notes to retail holders, the Society provided retail holders of PIBS with an alternative option to sell their PIBS to the Society for cash pursuant to a tender offer. The PRA accepted the plan for the LME, including the core commercial terms for the transaction.

Since the year end, 100% of PPDS holders and 88% of PIBS holders accepted the invitation, which has resulted in around £50m of additional reserves. While the level of CET 1 and total capital ratios will be broadly the same after the LME, the transaction will benefit members' interest in the long term delivering a circa 1% increase in the Group total capital ratio under full implementation of the CRD IV rules. Given that the variations to the Special Conditions of Issue of the PPDS have addressed the investor challenge raised with respect to the PPDS, the Society has withdrawn its request for clarification from the EBA.

Member engagement

Carrying out regular research helps us to understand how well we are meeting the financial needs of our members. We also ensure there are a number of channels available for members to offer feedback on our products and services, as well as any suggestions they may have for making improvements.

KEY performance indicators

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

- *Mystery Shopper – conducted across our branch network. Mystery shoppers record their experiences against the standards that we expect our members to receive;*
- *Real-time surveys – members contacting our Customer Services and Retail Mortgage teams or visiting their local branch are asked to score the quality of service received and suggest ways in which we could improve;*
- *Postal and email surveys – we send our members short surveys by post or email on a variety of subjects, e.g. following a recent product purchase;*
- *Members' ViewPoint – events which seek face-to-face feedback from members and are held twice-yearly; and*
- *Customer Panel – made up of mortgage and savings customers who respond to online questionnaires about Society products and their opinions on money matters in general.*

The Mystery Shopper programme provides a real-life view of what our members experience when they visit a branch. It is not designed to catch people out, but instead highlight what we do well and where we could perhaps do better. Visits are carried out by an independent specialist and recorded on video, which makes identifying improvements around service delivery considerably easier.

We also use the results from mystery shops to praise good performance. This was certainly evident when one of our branch managers was identified during the year as having provided the best customer service from around 10,000 quarterly visits conducted all around the country by our partner firm, Performance in People.

Gathering feedback from genuine customer interactions is equally important to us. Following a branch visit or a telephone call through our customer services centre, members are invited to provide a satisfaction rating for their experience and leave any open-ended comments. Satisfaction scores recorded for the year were encouragingly high, averaging 9.39 out of 10. We plan to develop these measures further next year by introducing a question based around how easy members find the West Brom to deal with.

Twice a year we invite members to attend our ViewPoint feedback sessions, with the opportunity to put questions to the Chief Executive.

For more detailed insight into customer experiences, we carry out regular post-completion surveys. This began with new mortgage borrowers, but has since been extended to include members making use of the pensions, investments and financial advice service we offer. We want to ensure people remain completely satisfied when in the hands of one of our partner organisations, in this case Wren Sterling who have a team of independent financial advisers operating within our branch network.

Maximising member relationships often comes from getting to know them and spending time together, which is why our regular Members' ViewPoint sessions tend to prove very popular. Held twice a year, these events provide a relaxed and welcoming environment where members can openly convey their impressions of the Society directly to the Chief Executive and the senior management team.

Our innovative Customer Panel continues to shape our thinking for new initiatives and product launches. A total of 2,306 members have now joined, making their contributions via web-based questionnaires, which opens up the opportunity for participation to those members living outside our West Midlands heartland.

The panel helped to define the latest enhancements to the West Brom's website, which now includes a more detailed 'About us' section, an improved branch-finder tool and the ability to book savings and mortgage appointments online.

Corporate and social responsibility

Social and community impact

Our strong commitment to mutuality is seen in the various ways the Society supports local communities with the aim of improving the lives of people facing difficulty and disadvantage.

- **Financial aid**
  Providing financial grants via the Mercian Community Trust enables the Society to help local community groups and charitable causes at a genuine grassroots level. Funding comes through our long-established Community Account, an affinity savings product, and is then distributed as part of our partnership with the Diocese of Lichfield. In the past year, a wide variety of organisations – some 50 in total – have benefited from grants covering such areas as disability, dementia, mental health, caring, autism, and homelessness. The value of this localised support is that requests often arise from branch customers, which affirms the Society's reputation

within the region while also enabling us to have an immediate and tangible impact in helping those groups who turn to the Society for much-needed support.

- **Fundraising**
  Raising funds for the Society's charity of the year is a valuable focus for staff when it comes to community engagement, allowing them to display compassion and creativity in support of a crucial regional charity. Importantly, the participation of staff in the selection process gives the chosen charity a crucial endorsement. In addition, with an emphasis on choosing a regional charity, the fundraising efforts of staff tend to have a more obvious and visible impact. This was evident in the backing given to this year's chosen charity, Kaleidoscope Plus Group, which helps people achieve better mental and emotional health, at the same time working to dispel the stigma and misunderstanding that all too often surrounds this subject. As a result of our fundraising efforts, Kaleidoscope will receive £30,000 for its proposed suicide prevention helpline.

- **Affinity partnerships**
  Customers are able to save with the Society through special affinity accounts where bonus payments based on the total savings balances held are allocated once a year to specific organisations. The advantage of such accounts is that customers can express their support for causes that matter to them personally. For instance, the Society has celebrated over a decade in partnership with Birmingham Children's Hospital. In that time, the affinity arrangement has benefited a variety of initiatives, including the recent Critical Journeys Appeal, which seeks to enhance the equipment in critical care ambulances for children.

Proceeds from the Red Balloon Appeal Account are used to fund vital healthcare projects at Birmingham Children's Hospital.

- **Volunteering programme**
  The Society has developed a very active and popular volunteering programme, which saw some 115 colleagues taking part in a range of community projects during the past year. This was greatly appreciated by the respective charities while, for staff, volunteering offers an insight into the predicaments of other people's lives, along with a real palpable sense of achievement. That came across in various projects, whether working with children at Birmingham Children's Hospital on the Art Kart project, renovating a local nursery, or restoring a garden at a clinic for people with dementia. The Society also extended its initiative on financial awareness where colleagues from our branch network go into local schools to highlight the value of money management. Entitled The Money-Go-Round, the presentation has now featured at some 20 schools, encompassing secondary and primary school pupils.

Colleagues are always willing to lend a hand and offer their support to local charities and community groups.

- **Employee diversity**
  The Society believes in attracting and valuing people of calibre and talent from all backgrounds, which is why diversity and inclusion are enormously significant to us, especially as we are largely based in one of the most ethnically diverse regions in the country. That belief is reflected in the composition of our workforce with over a quarter, 28%, drawn from ethnic minority communities. This is especially relevant in those areas with a mixed ethnic profile where staff with multilingual skills ensure our customers receive a service that is culturally sensitive and appropriate.

  As well as reporting on gender pay variations, the Society has signed up to the Women in Finance Charter where we intend to increase female representation at Board and senior management level to 30% respectively by 2020. At present, with staff numbering 749 in total, women comprise 447 (60%) of the overall figure. 54% of our Retail and Branch Management team is female and, at divisional management level, the comparison is 7 male managers to 2 female.

  Information on staff composition at the end of the year is shown below:

		2018 Female	**2018 Male**	2017 Female	2017 Male
Directors	Number	**1**	**8**	2	8
	Percentage	**11%**	**89%**	20%	80%
Senior managers	Number	**13**	**32**	12	36
	Percentage	**29%**	**71%**	25%	75%
Other colleagues	Number	**433**	**262**	439	253
	Percentage	**62%**	**38%**	63%	37%

  Recognising the individual quality and contribution of all our people, and their ability to realise their potential at the West Brom, underpins our stance on diversity and inclusion. This is why the Society has created a new working group called Connect to represent diverse perspectives within the organisation with the purpose of giving these principles an even more meaningful presence.

Environment

The Society is committed to the protection of the environment, as evidenced by the implementation of a number of programmes and schemes:

- The Society's Head Office operates a nil to landfill scheme where all dry waste goes through a recycling programme. Food waste is separated and goes through a composting process.
- All paper waste is securely shredded prior to being recycled.
- Printing ink and toner cartridges are recycled, along with other IT equipment where there is a zero information loss risk.
- The Society has registered and is compliant with the Energy Savings Opportunities Scheme (ESOS) and is progressing actions to measure and set energy targets for both Head Office and Branch buildings.
- Surplus office furniture is donated to local charities.
- IT equipment is configured to go into energy saving mode after periods of inactivity.
- Staff are encouraged to reduce travel impact through promotion of car share and cycle to work schemes.

In addition the Society has in place a Supplier Code of Conduct which places environmental management obligations upon its suppliers.

Taxation

The statutory reported tax charge for the year was £0.9m (2016/17: £6.0m). The effective tax rate for the year is lower than the current UK rate of 19%, due to the utilisation of brought forward tax losses and the recognition of additional deferred tax assets based on amounts expected to be recoverable within the next five years.

The Society fully complies with tax legislation, recognising the importance of paying our fair share of tax and the benefits this brings to the economy as a whole.

As required by the Finance Act 2016, the Society's tax strategy has been published on its website.

Other non-financial information

The Society maintains the highest standards with regards to anti-bribery and corruption, and implements annual mandatory training for its staff. Additionally, the Society has in place policies to comply with applicable laws including the Bribery Act 2010 and the Criminal Finances Act 2017. The Society publishes a Modern Slavery and Human Trafficking Statement each year and continually seeks to improve its vigilance in respect of modern slavery issues via its Supplier Selection and Management policy and associated procedures. The Society has a zero tolerance approach to slavery and human trafficking in all its forms.

Principal risks and uncertainties

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

The separate Risk Management Report on pages 21 to 25 identifies the principal risks and uncertainties faced by the Society and describes, in detail, the West Brom's approach to risk management.

Outlook

The UK's departure from the European Union continues to overshadow the political and economic landscape. Brexit is not expected to directly affect the Society's operations, which are solely UK based. Any resultant economic volatility could, however, damage consumer confidence, thereby subduing markets and adversely impacting performance. Our capital and liquidity planning processes include consideration of stressed scenarios and give assurance that the Society is able to withstand a deterioration in economic conditions should it materialise.

Mortgage pricing remains aggressive in the wake of the Term Funding Scheme (TFS), which provided inexpensive funding to promote lending, with participating institutions now seeking to utilise their final drawings. New entrants are also contributing to intense mortgage market competition. November 2017 saw the first increase in Bank Rate for 10 years, and further interest rate rises are forecast for the coming financial year, which will be welcome news for savers and may serve to alleviate an element of margin pressure.

Regulatory requirements are constantly emerging. Mandatory projects, such as the General Data Protection Regulation (GDPR) and IFRS 9, will demand ongoing investment in systems and processes during 2018/19.

Under the new accounting standard IFRS 9 'Financial Instruments', which applies for the year ended 31 March 2019, the calculation of expected credit losses will involve modelling a number of alternative economic scenarios. While the impact of IFRS 9 adoption on the Group's residential portfolios is not anticipated to be material, the provision requirement for the more market-sensitive commercial book is expected to increase by around £15m. The initial CET 1 capital impact will be negligible due to the existence of transitional arrangements to defer recognition of the higher provisions for capital purposes.

Technology is rapidly advancing and the Society is challenging itself to be agile in its responses to members' evolving needs. It is our firm belief that building societies, whose membership extends to a third of the UK population, have a vital role to play in the new digital age. Utilising our technological capabilities and the expertise of our people, to their fullest potential, will enable the West Brom to keep pace with change, delivering innovative products and service aligned to our core purpose of providing members with a safe home for their savings and help in buying or renting a home.

The Group's capital position has been strengthened by the profits reported for the year. Following the completion of the LME, our capital base has been modernised to further support members' financial wellbeing now and in the future.

Ashraf Piranie
Group Finance & Operations Director
30 May 2018

Risk Management

Overview
Effective management of risks and opportunities is essential to achieving the Society's objectives. The Board aims to manage effectively all the risks 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
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 principal key risk categories: business, credit, capital, liquidity, market, basis, operational, retail conduct, pension liability and information (the Society's Risk Appetite Statements).

These Risk Appetite Statements drive corporate planning activity, including 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 'Three Lines of Defence' model which is illustrated below.

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

Governance structure
During the year, risk governance was provided by a structure consisting of nine key risk management committees:

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

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

Assets & Liabilities Committee (ALCo) - This Committee is chaired by the Group Finance & Operations Director and is responsible for overseeing the assets and liabilities risk including the assessment of exposure to Treasury counterparty credit, market, liquidity, pension liability, basis and interest rate risk.

Residential Credit Committee (RCC) - This Committee is chaired by the Chief Financial Risk Officer and is responsible for monitoring the Society's residential lending activity and its exposure to credit risks in the retail loan books.

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

Operational and Conduct Risk Group (OCRG) - This Group is chaired by the Group Secretary and is responsible for the oversight of the management of operational and retail conduct risks arising from the Society's business activities.

Information Risk Group (IRG) – This Group is chaired by the Group Secretary and is in place to maintain oversight and governance of information risk across the Society and challenge the effectiveness of the controls in place to mitigate information risk (including cyber security). Its purpose is to support and drive the information risk governance agenda and provide oversight that effective information governance best practice mechanisms are in place within the Society.

Group Capital Committee (GCC) - This Committee is chaired by the Group Finance & Operations Director and is responsible for reviewing the Group's capital requirements.

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

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

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

Business risk
The risk of the Society failing to meet its business objectives through the inappropriate selection or implementation of strategic plans.

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

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

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

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

Basis risk
The risk that assets and liabilities re-price at different times and/ or by varying amounts, adversely affecting the net interest margin.

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

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

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

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

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

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

Business conditions and the economic environment
Notwithstanding the Brexit related uncertainty, the UK economy has continued to perform well. The Bank of England responded to higher than expected inflation by increasing interest rates for the first time in more than 10 years. The strength of the economy continues to be driven by household consumption, which appears to be driven by increasing amounts of unsecured debt. UK inflation has remained above the Bank of England target of 2% following the fall in sterling but the continuing low cost of borrowing supports improving customer affordability and continues to drive the growth of consumer debt to record levels.

The cost of retail mortgages has continued to fall, driven by increasing competition in the market and a greater focus on lending to owner-occupiers, given the macroprudential and fiscal policy changes announced to impact the buy to let market, which has seen the volume of first time buyers increase during 2017.

The West Brom is exclusively focused in the UK and, therefore, the general UK macro-economic environment is key to its success. It is anticipated, the ongoing Brexit negotiations, until a deal is agreed, will potentially introduce some economic uncertainty that may impact consumer and business confidence.

The external factors that impact the Society include:

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

Day-to-day management of key risks
Primary responsibility for risk management, including the design and operation of effective controls, rests with the management of each business function - the 'First Line of Defence'. Support and challenge is provided through specialist risk functions - Credit Risk, Operational Risk, Conduct 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 21.

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 Society, 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 Society's lending was in accordance with the approved credit policy, which is consistent with the risk appetite established by the Board. Currently, no new non-conforming property lending (i.e. commercial, sub-prime or self-certified) is being undertaken.

The Society's exposure to residential and commercial credit risk is managed by a specialist Credit Risk team, which is responsible for setting the Credit Risk Management Framework and associated limits. It also provides regular reports to the Risk Committee, which is chaired by a Non-Executive Director and includes all other Non-Executive Directors, except the Chairman, 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 maintained 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 Society's assets and liabilities as a

result of changes in interest/exchange rates, property prices or equities. Market risk exposures are managed through the Treasury department which is responsible for managing exposure to all aspects of market risk within parameters set by the Board.

ALCo reviews the Treasury & Financial Risk Management Policy, recommending changes to the Board as appropriate, and ensures that regular reports on all aspects of market risk are assessed and reported to the Board. The key market risk is interest rate risk, which arises as a result of differences in the timing of interest rate re-pricing of assets and liabilities. To mitigate this, 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 focus on their use to reduce risk.

The maximum level of interest rate risk is governed by the Board approved Treasury & Financial Risk Management 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, is considered. In addition, the impact of alternative 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 risk) is monitored by Treasury and reported to ALCo.

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

The Society has invested in property through its subsidiary West Bromwich Homes Limited and offers residential property for rent. This part of the business exposes the Society to movements in house prices. The Board's strategy is to exit from this business when market conditions are opportune.

Liquidity risk

The Society's primary 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.

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 at which the Group can generate cash from its business assets and the demand for funds to meet its liabilities. To mitigate this risk, the Group holds sufficient liquid resources to meet the normal day-to-day operations of the business and, in addition, maintains a buffer of high quality liquid assets which can be converted quickly into cash to cover outflows in 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 review of its liquidity adequacy under the Internal Liquidity Adequacy Assessment Process (ILAAP) and submits this to the PRA for supervisory review. The ILAAP specifies the daily processes that the Society will use to determine the amount of liquidity required to cover its potential cash flow needs under a range of stresses including three PRA standard scenarios: 'idiosyncratic', 'market-wide' and 'combined'.

The supervisory review also informs the PRA's view of the amount of 'buffer' or highest quality liquid assets that the Society should hold to meet the three standard regulatory stress scenarios and the maximum allowable gap between maturing wholesale assets and wholesale liabilities (wholesale refinancing gap). The PRA replaced the Individual Liquidity Guidance with the Liquidity Coverage Ratio (LCR), which was a Basel III requirement to be adopted universally. Treasury maintains liquid resources at the greater of the LCR requirement or the internal assessment of liquidity adequacy.

The Net Stable Funding Ratio (NSFR) is a longer-term stable funding metric, which measures the sustainability of the Society's long-term funding. It was introduced from 1 January 2018. Based on current interpretations of the regulatory guidance, the Society's NSFR is in excess of 100%, and the Society holds sufficient stable funding to meet this new requirement.

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

- The 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;
- Treasury is responsible for day-to-day management and maintenance of adequate liquid resources under delegated authority from ALCo; and
- The 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.

Capital risk

The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) covering all risks. This is used to assess the Society's capital adequacy and determine the levels of capital required going forward to support the current and future risks in the business. This analysis is collated into an Internal Capital Adequacy Assessment (ICAA) that is approved by the Board. The ICAA 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 ICAA is used by the PRA to set the Society's capital requirements as its Total Capital Requirement.

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

The detailed breakdown of the Society's capital position can be found on pages 16 to 17.

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

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

Retail conduct risk

Conduct risk is deemed so important that the Financial Conduct Authority (FCA) was created to increase the regulatory focus on it. This is intended to go beyond the previous focus on compliance with rules, on process and on treating customers fairly, to embrace a holistic approach of how a firm organises itself and does business in order to ensure good customer outcomes.

The management of conduct risk is a key component in the successful delivery of the Society's strategy and objectives, and protection of its members and customers.

Information risk

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

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

To this end the Society has determined a risk management strategy based on the following principles:

- A clearly articulated and Board approved Information Risk Appetite Statement;
- A clearly articulated and Board approved information risk definition;
- An embedded and compliant Information Risk Management Framework, underpinned by robust processes and tools;
- A Board approved Cyber Resilience Strategy Plan;
- A Three Lines of Defence model with clearly articulated responsibilities for the management of information risk;
- Appropriate processes, systems and controls that support the effective management of information risks across the Society;
- Committee oversight within an appropriate governance structure; and
- An appropriate member of the senior management team with overall accountability for information risk management.

Principal risks and uncertainties

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

Risk category	Principal external threats	Society response and mitigants
Business risk	Adverse changes to the operating environment arising from the general uncertainty in the UK economy, following the Brexit Referendum result, leading to: • A reduction in interest rates from the current historical low, or a series of rapid and large increases in interest rates to counter inflation; • Reduced activity in the housing market and possible adverse impact from both lower lending and a potential fall in house prices; • Increased competition and cost of retail funding; • Low or flat economic growth; and • Increasing regulatory costs.	Business plans continue to model the impact of a range of scenarios and stress tests to provide comfort that the Society can tolerate the consequences financially and reputationally. Income projections are reviewed regularly to identify mitigation actions.
Credit risk	Higher unemployment and/or an increase in Bank Rate (leading to increased arrears and losses).	The Society's provisioning and stress testing models assume a range of unemployment levels and varying interest rate scenarios. Should an increase occur, the Society would expand its credit management resource.
	Reduction in property prices (leading to a higher incidence of voluntary possessions).	The Society is committed to work with its borrowers to avoid possession wherever possible. In the event that possessions were to increase the Society has provided and regularly reviews its impairment provisions.
	Low or flat economic growth (leading to further tenant failures).	The Society has a well-resourced and highly experienced team dealing with commercial property mortgages and, as has been the case throughout the year, works with borrowers to lessen the impact.

Risk category	Principal external threats	Society response and mitigants
Capital risk	Rules for calculating capital (amount required and/or amount held) are changed.	Maintain regular dialogue with the regulator and ensure full understanding of the relevant rules.
Liquidity risk	Intensification of competition for retail and wholesale funding.	The Society continues to attract new retail savers, despite intense competition, and recently completed a residential mortgage backed securitisation transaction which was well received by the markets.
Market risk/ Basis risk	Reduction in returns from residential tracker mortgage assets whose rate is linked to Bank Rate with no floor.	The Society does not originate any new residential tracker mortgages and is managing down its Bank Rate Tracker book.
	Falling HPI, leading to a reduction in the book value of West Bromwich Homes Limited properties.	No new homes are being added to the portfolio and active steps are being taken to reduce the Society's exposure.
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.
	A significant business continuity event.	Detailed business plans are in place, which are regularly tested.
Information risk	One or more of the Society's IT systems are attacked for the purposes of financial gain, theft of data or to cause the Society disruption or negative exposure and threaten the security of members' information, and the availability of the services offered to them. Cyber attacks remain a significant risk for financial institutions.	The Society recognises the need to maintain and develop its defences and responses in this area in order to protect the Society and maintain the trust of customers and the confidence of regulators. External specialist advice has been received and actions implemented on system design. During 2017/18, the Society invested significantly in cyber security infrastructure and training and will continue to do so in 2018/19, in line with the Cyber Resilience Strategy and Information Risk Management Framework. This will require the Society to remain vigilant to the latest cyber attack trends and protection defences.
Pension liability risk	Increased longevity and/or 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.
Retail conduct risk	Actions of third party suppliers leading to adverse customer outcomes.	A robust supplier framework is in place to oversee the activities of key suppliers.

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

Mark Preston
Chairman of Risk Committee
30 May 2018

Board of Directors

Left to right: **Mark Nicholls, Vicky Mitchell, Richard Sommers, Ashraf Piranie** and **Martin Ritchley.**

Julie Hopes MBA, ACIB
Non-Executive Director Appointed April 2016
Julie has many years of experience in retail financial services, with a particular focus on general insurance. An Associate of the Chartered Institute of Bankers, she has Non-Executive Director roles with Co-operative Insurance and the Police Mutual Assurance Society. Julie is a member of the Risk and Remuneration Committees.

Victoria Mitchell LLB (Hons)
Non-Executive Director Appointed April 2018
Vicky joined the Board on 1 April 2018 and is a legally trained businesswoman who brings to the West Brom a broad experience across operations and risk within the financial services sector. Prior to taking on the Non-Executive Director role at the West Brom, Vicky held the position of Chief Operating Officer at Capital One Europe plc. Vicky is a member of the Risk Committee.

Mark Nicholls MA (Cantab), MBA
Chairman Appointed January 2010
Mark has considerable knowledge of financial services having been a Director of SG Warburg Group Plc and Managing Director of the private equity group of the Royal Bank of Scotland. Mark has held Non-Executive Directorships at Portman and Nationwide building societies and is currently Chairman of Rathbone Brothers Plc. Mark also has a longstanding commitment to the charitable and public sector. Mark chairs the Nominations Committee and is a member of the Remuneration Committee.

Ashraf Piranie FCCA, MBA
Group Finance & Operations Director Appointed March 2017
Ashraf has worked in financial services for most of his working life, including the positions of Finance Director and Joint Managing Director at the Islamic Bank of Britain and Director of Finance at Alliance & Leicester Plc. Prior to joining the West Brom, he was Deputy Chief Executive & Finance Director at Nottingham Building Society. Ashraf is also Deputy Chair of the PRA Practitioner Panel. Ashraf chairs the Society's Assets & Liabilities Committee.

Mark Preston BA (Hons), ACIB
Non-Executive Director Appointed May 2011
Mark has been involved in financial markets for over 30 years, most recently as Chief Executive at Exotix Partners. He was previously Chief Executive Officer for the Products and Markets Division of Lloyds TSB and Co-Head of the Bank's Corporate Markets. Mark chairs the Risk Committee and is a member of the Audit and Remuneration Committees.

Left to right: **Mark Preston, James Turner, Colin Walklin, Julie Hopes** and **Jonathan Westhoff.**

Martin Ritchley FCA, FCIB, Hon DBA (Coventry)
Deputy Chairman and Senior Independent Director Appointed September 2009
Martin is a former Chief Executive of Coventry Building Society and former Chairman of the Building Societies Association. He chairs the Remuneration Committee and is a member of the Audit, Nominations and Risk Committees.

Richard Sommers MA (Oxon), ACIB
Non-Executive Director Appointed October 2009
Richard is highly experienced in retail and commercial banking and held senior positions with the Barclays Group, including Chief Financial Officer for Barclaycard and Risk Director of Retail Financial Services. He has also been Treasurer and Fellow of Lady Margaret Hall, a college in the University of Oxford, before retiring in 2016, and is now an Emeritus Fellow. Richard is a member of the Audit, Nominations and Risk Committees. Richard will be stepping down from the Board at the Board meeting following the Annual General Meeting.

James Turner FCA, FCSI, BA (Hons)
Non-Executive Director Appointed April 2017
James is the Group Chief Risk Officer and an Executive Director on the Prudential Board. Before joining the Board James was the Director of Group Finance. Prior to Prudential, James was the Deputy Head of Compliance for Barclays. He also held a number of senior internal audit roles across the Barclays Group. James is a member of the Audit and Risk Committees.

Colin Walklin BSc, FCA
Non-Executive Director Appointed July 2011
Colin is Chief Operating Officer of Standard Life Aberdeen Plc with responsibility for operations, technology and change management throughout the Group. A qualified Chartered Accountant, Colin chairs the Audit Committee and is a member of the Risk Committee.

Jonathan Westhoff BA (Hons) Financial Services, FCMA, CGMA, ACIB
Chief Executive Appointed May 2009
Formerly the Society's Group Finance Director and Deputy Chief Executive, Jonathan was appointed as Chief Executive in May 2011. After 17 years with Barclays Bank, he moved into the mutual sector in 2000, serving as Finance Director at Portman and Newcastle building societies. Jonathan is a past Chairman of the Building Societies Association and a Councillor on the CBI West Midlands Council. He chairs the Executive Committee and is a member of the Society's Assets & Liabilities Committee.

Directors' Report

The Directors are pleased to present their Annual Report, together with the audited Accounts, for the financial year ended 31 March 2018.

Business objectives

The main purpose of the Society and its subsidiaries (the Group) is to work together to meet the prime financial needs of our members. This entails provision of a range of personal financial 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 pages 2 to 3, the Chief Executive's Review on pages 4 to 6 and the Strategic Report on pages 7 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 Strategic Report on pages 7 to 20.

Profit and capital

The Group's profit before tax (on continuing operations) amounted to £8.8m (2016/17: loss of £19.8m). The total profit after tax transferred to reserves was £7.9m (2016/17: loss of £25.8m).

The total Group reserves at 31 March 2018 were £220.0m (2016/17: £215.5m) after taking into account a revaluation reserve of £3.4m (2016/17: £3.5m), a cash flow hedging reserve deficit of £nil (2016/17: £0.7m) and an available for sale reserve of £0.8m (2016/17: £1.7m).

Gross capital at 31 March 2018 was £470.0m (2016/17: £463.5m) including £175.0m of profit participating deferred shares (2016/17: £173.0m) and £75.0m (2016/17: £75.0m) of subscribed capital.

The main Group ratios were as follows: gross capital ratio; 8.95% (2016/17: 8.79%), free capital ratio; 5.88% (2016/17: 5.90%) and liquidity ratio; 14.43% (2016/17: 16.19%). For further details see page 115.

Detailed Pillar 3 capital disclosures for the current year will be available on the Society's website.

Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 place certain reporting obligations on financial institutions that are within the scope of the Capital Requirements Directive (CRD IV).

The principal activities of the Society are set out under the business objectives earlier in this report and, for each of the Society's subsidiaries, in note 15 to the Accounts. All of the activities of the Group are carried out in the United Kingdom and therefore 100% of the total income, profit before tax and tax shown in the Income Statement as well as employee figures shown in note 7 are related to the United Kingdom. The Society and its subsidiaries have not received any public subsidies (2016/17: nil).

Risk management

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

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

The principal risks inherent to our business and details of how these risks are managed are set out in the Risk Management Report on pages 21 to 25.

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

Financial risk management objectives and policies

The Board's objective is to minimise the impact of financial risk upon the Society's performance. Financial risks faced by the Society include interest rate, credit and liquidity risks. The Board manages these risks through a risk management framework, Board policies and its Treasury and Credit Risk functions. Governance and oversight is provided through the Risk and Assets & Liabilities Committees. Details of the Society's financial instruments, hedging activity and risk mitigation can be found in note 12 and notes 31 to 34 to the Accounts.

Mortgage arrears

At 31 March 2018 there were 18 (2016/17: 39) 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 £72.8m (2016/17: £87.7m), representing 1.51% (2016/17: 1.85%) of mortgage balances, and the amount of arrears was £15.7m (2016/17: £13.5m). 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:

Claire Hafner (stepped down 27 July 2017)
Julie Hopes
Mark Nicholls (Chairman)
Ashraf Piranie*
Mark Preston
Martin Ritchley
Richard Sommers
James Turner
Colin Walklin
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 2018, the creditor days figure was 29 days (2016/17: 26 days). This conforms with the aim of paying creditors promptly.

Charitable donations

During the year the Society donated £1,849 (2016/17: £17,603) to charitable organisations. The Society also raised significant sums through its community programme, affinity accounts and voluntary staff initiatives. These are outlined on pages 18 to 19 of the Strategic Report.

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

Employees

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

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

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

Health and safety

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

The Society is committed to ensuring that all employees receive adequate training in health and safety to make them aware of their individual responsibilities to enable them to carry out their work without injury or damage to the health of themselves or others affected by their work. All employees, on commencing employment with any business area, receive induction training which is reinforced through 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. Accredited safety representatives are afforded every opportunity to effect this consultation and to receive training. A Health and Safety Committee is in place with representatives from across the business which 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 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that law they are required to prepare the Group Annual Accounts in accordance with International Financial Reporting Standards (IFRS) 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 IFRS, 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 judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS 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 IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the management reports in pages 7 to 25 include a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Group:

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

The Directors 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.

Going concern and business viability

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

Directors' responsibilities in respect of going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review on pages 4 to 6 and the Strategic Report on pages 7 to 20. The financial position of the Group, its capital structure and risk management and control processes for managing exposure to credit, market, liquidity and operational risk are described in the Strategic Report on pages 7 to 20 and the Risk Management Report on pages 21 to 25.

In addition, notes 32 to 34 to the Accounts include further information on the Group's objectives, policies and processes for managing its exposure to liquidity, credit and interest rate risk, details of its financial instruments and hedging activities.

The Group's forecasts and projections, taking account of possible changes in trading performance and funding retention, and including stress testing and scenario analysis, show that the Group will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. Furthermore, the Group's capital is in excess of the PRA requirement under each of the scenarios considered.

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.

Business viability statement

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

The Directors' assessment is based on a robust review of the Group's principal risks, the Strategic Plan and the risk management framework including risk appetite and risk culture described within the Risk Management Report. This assessment is further supported by the ICAAP, ILAAP, reverse stress testing and Recovery and Resolution Plans. In particular the completion of the Society's LME in April 2018 results in a modernised capital base and has removed the potential uncertainty with respect to the classification of CET 1 capital instruments, leaving an improved capital position.

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

The MTP projects the Society's ongoing financial performance, capital and funding positions as satisfactory to the end of the three year plan period even in a range of adverse scenarios. Inherent uncertainty with regard to a number of factors, including geopolitical, economic and regulatory, inevitably increases over the planning period. Scenarios tested showed that the Society would be able to maintain viability over the three year period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios.

Subject to the uncertainty in the outer years noted above and based upon the assessment set out above, the Directors therefore have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2021.

Auditor

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

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's 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
30 May 2018

Directors' Report on Corporate Governance

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

The widely accepted articulation of good practice is the UK Corporate Governance Code (the Code).

The Society is not required to and does not comply with the Code, as it applies to publicly listed companies, but where it is considered relevant, the Society does have regard to its principles. This Report details the Society's approach to corporate governance and, where different to relevant Code principles, explains why 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 11 occasions. Details of Director attendance at Board and Committee meetings can be found in the table at the end of this Report. The minutes of Board and Committee meetings record all material discussion and challenge and are circulated to all Directors. The Chair of each Committee reports to the subsequent Board meeting the key matters discussed. A schedule of matters reserved to the Board is maintained and kept under regular review. The Board is supported by a number of Committees each with Board approved terms of reference. Details of the membership of those Committees and their key activities are reported elsewhere in this Report and Accounts. 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 constructive challenge to the management team. Further details of the Chairman's 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, recruitment and appraisal of Non-Executive Directors (NEDs); • Lead the Board as a team; • Ensure that the Board has agreed clear values and guiding principles; • Plan and manage the Board's business, including ensuring that appropriate committees are established with the right objectives and membership and that the Board has the right agenda and information; • Ensure that the Board has established key priorities; • Maintain and develop a productive and open relationship with the Chief Executive, agree the Chief Executive's objectives and carry out regular appraisals. The Chairman is responsible for leading the appointment process for the Chief Executive; • Ensure there are appropriate arrangements for the evaluation and remuneration of senior executives; • Act as an accountability focus for the Society, including chairing the Annual General Meeting; • Represent the Society with Regulators and ensure that there is an open and trustworthy relationship; and • Ensure that the Board and its Committees periodically evaluate their own performance. The Board has satisfied itself that both at the time of his appointment, and currently, the Chairman is independent in character and judgement and meets the independence criteria set out in the Code.
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 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.

The Code's Main Principles	What the Society does to meet the Principles
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 and Committee composition is kept under regular review by the Chairman and the Nominations Committee to ensure that it is of appropriate size, mix of Executive and Non-Executive Directors 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 judgement and that there are no potential conflicts of interest which would affect their judgement.
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 James Turner joined the Board in the role of NED on 1 April 2017. During the latter part of the financial year the search began for an additional NED to join the Board. The process involved the support of a specialist recruitment firm in the search and interview process. Initially, all individuals identified by the recruitment firm were reviewed by members of the Board to identify a shortlist of potential candidates to interview. These candidates were then interviewed by the recruitment firm before being interviewed by members of the Board. The potential successful candidate then met with the remaining Board members and Group Secretary. Finally, the Nominations Committee recommended to the Board that the potential candidate be offered the role of NED. The process concluded with the appointment of Vicky Mitchell who joined the Board on 1 April 2018. The terms of reference of the Nominations Committee, which is made up of NEDs only, is 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 NED appointments which is tailored to their individual experience. These include site visits, meetings with senior management and reports/information concerning the Group's operations. Internally organised events on topics of particular relevance to the Society are used to aid development. NEDs are also encouraged to attend appropriate externally organised events. A development log records relevant development activities undertaken by individual Directors.
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 and regulatory developments. 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. The Board and its Committees are served by the Group Secretary who advises on governance matters and procedures. Directors have access to independent professional advice should that be required.
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 effectiveness was initiated in the latter part of the 2016/17 financial year. As a result of the changes to the Board composition during the year, this evaluation was conducted over the financial years 2016/17 and 2017/18. This evaluation was conducted by an external firm with expertise in this area. The process involved interviewing all Board members, as well as key individuals who regularly interact with the Board. In addition, meetings of both the Board and Risk Committee were observed. The process culminated in a report to the Board, presented at the February 2018 meeting. The annual evaluation of the Chairman was led by the Deputy Chairman and took the form of a meeting to review the effectiveness of the Chairman and Board and Committee provisions. The conclusions were shared with the Chairman.
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 all Directors will stand for election each year. 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. Vicky Mitchell, appointed on 1 April 2018, will stand for election in July 2018. The Rules also state that any Director reaching the age of 70 should stand for re-election. Martin Ritchley reaches the age of 72 on 1 July 2018 and therefore has been put forward for re-election this year.
C1 Financial and Business Reporting The board should present a fair, balanced and understandable assessment of the company's position and prospects.	The Directors' Report on pages 28 to 30 includes statements detailing the Directors' responsibilities. The Chief Executive's Review on pages 4 to 6, the Strategic Report on pages 7 to 20 and the Risk Management Report on pages 21 to 25, give an extensive report on the Society's performance, financial position and the key risks that will impact performance and risk management going forward.

<table>
<tr><th>The Code's Main Principles</th><th>What the Society does to meet the Principles</th></tr>
<tr><td>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.</td><td>The Society's Board is responsible for the development of strategies relating to risk management and internal control. Operational responsibility rests with the Executive Directors and senior managers.

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

The Board reviews the effectiveness of the risk management systems and internal controls in a number of ways, including:
Board review and approval of Risk Appetite Statements at least annually, with monthly reporting relating to those statements;
A formal committee structure, including an Audit Committee (see below for more detail) and a Risk Committee. 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 Committee, provides independent assurance regarding the adequacy and effectiveness of internal controls across all Group activities.</td></tr>
<tr><td>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.</td><td>The Board has an Audit Committee comprising five 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 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 auditor's own internal policy on providing non-audit services. The Society has a well established 'Open Door' 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 2017/18. 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 & Operations Director, Group Secretary, Chief Financial Risk Officer and Divisional Director Internal Audit. 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 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 function;
Recommended the appointment 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;
Confirmed that the Internal Audit function was appropriately resourced; and
Met privately with the Divisional Director Internal Audit and the external auditor.</td></tr>
<tr><td>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.</td><td>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 FCA's Remuneration Code as Code Staff.

The Directors' Remuneration Report on pages 38 to 44 explains how the Society, through the Remuneration Committee and Board, approaches the remuneration of Directors and other executives.

The Society is subject to the FCA's Remuneration Code, requiring the Society to have a remuneration policy which promotes effective risk management, supports business strategy, objectives and values, and is in the long-term interests of the Society.

During the last financial year, the Remuneration Committee:
Reviewed the Society's Remuneration Policy;
Recommended to the Board the Performance-Related Pay Scheme and awards under that Scheme;
Reviewed employee benefits arrangements;
Made recommendations to the Board in respect of the annual salary review;
Reviewed the employee benefits package; and
Reviewed the terms of appointment and benefits of Code Staff.</td></tr>
</table>

The Code's Main Principles	What the Society does to meet the Principles
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; 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; • Customer satisfaction surveys and Mystery Shopper programme; and • Customer Panel to canvass views on products and services and give feedback on how the Society can improve the way it operates.
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 proxy votes received through the post and via the internet. 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, Remuneration, Risk and Nominations Committees are available to answer questions at the AGM.

Meetings of the Nominations Committee

The Nominations Committee which is chaired by the Society's Chairman, met on five occasions in the last financial year. The key matters considered by the Committee were:

- Membership of Board committees;
- Board performance evaluation arrangements;
- NEDs reaching the end of their three year term of office;
- NED development; and
- Board Succession Planning.

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

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

Attendance records – Board and Board Committee meetings

	Board	Nominations	Audit	Risk	Remuneration
Mark Nicholls	11 (11)	5 (5)			5 (5)
Claire Hafner	4 (4)		1 (1)	3 (3)	2 (2)
Julie Hopes	9 (11)			7 (8)	2 (3)
Ashraf Piranie	11 (11)				
Mark Preston	11 (11)		3 (3)	8 (8)	5 (5)
Martin Ritchley	11 (11)	5 (5)	4 (4)	8 (8)	5 (5)
Richard Sommers	11 (11)	5 (5)	4 (4)	8 (8)	
James Turner	11 (11)		4 (4)	6 (8)	
Colin Walklin	10 (11)		4 (4)	8 (8)	
Jonathan Westhoff	11 (11)				

Mark Nicholls
Chairman
30 May 2018

Audit Committee Report

Membership and attendees

The Audit Committee is appointed by the Board and, at 31 March 2018, comprised five Non-Executive Directors:

- Colin Walklin (Chairman);
- Martin Ritchley;
- Richard Sommers;
- James Turner; and
- Mark Preston.

The Chairman, Chief Executive, Group Finance & Operations Director, Chief Financial Risk Officer, Group Secretary, Divisional Director Treasury & Finance, the external auditor and Divisional Director Internal Audit also attend by invitation.

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

The Committee met four times during the year, with attendance as detailed on page 34. In addition, the Committee met privately with the external auditor and the Divisional Director Internal Audit.

Roles and responsibilities

The roles and responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees (the 'Smith Guidance') which was updated in September 2012 and applied for financial years beginning on or after 1 October 2012.

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

- the provision of assurance to the Board regarding the integrity of the financial statements of the Society, including its annual and any interim reports, reviewing significant financial reporting issues and judgements which they contain. The Committee also review summary financial statements and significant financial returns to regulators;
- assessing the adequacy and effectiveness of the Society's internal controls and risk management systems (including conduct risk);
- reviewing and approving the statements to be included in the Annual Report concerning internal controls and risk management;
- reviewing the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements follow proportionate and independent investigation of such matters and appropriate follow up action;
- monitoring and reviewing the effectiveness of the Society's Internal Audit function in the context of the Society's overall risk management system;
- approving the appointment and removal of the Divisional Director Internal Audit, and making recommendations regarding performance objectives and remuneration to the Society's Remuneration Committee as required;
- considering and approving the remit of the Internal Audit function and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- reviewing and assessing the Internal Audit plan;
- considering and making recommendations to the Board, to be put to members for approval at the Annual General Meeting (AGM), in relation to the appointment, reappointment and removal of the Society's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- monitoring the effectiveness of the Society's external auditor, including (but not limited to):
  - approval of their remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
  - approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services; and
  - reviewing and approving in accordance with policy, any proposed employment of employees or former employees of the Society's auditor.

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

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

Areas of focus for the Committee in the year

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

a) Financial reporting issues and judgements

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

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

Since the previous year end, there have been no changes to the Group's accounting policies. There were no new or amended accounting standards in the year which had a material impact on the financial statements. The key matters that the Committee considered in reviewing the 2017/18 financial statements were:

- **Loan impairment provisions**
  The Committee confirmed the suitability of the approach to calculating loan loss provisions, which was consistent with that applied in the previous year. The Committee also had the opportunity to review and challenge the impairment model assumptions, after which it agreed the appropriateness of the level of loss provisions and of the associated disclosures.

- **Other provisions**
  Other provisions at the year end date mainly comprise the estimated future costs of payment protection insurance (PPI) redress which have been updated to reflect claims experience in the year. A smaller provision is held for the Society's share of Financial Services Compensation Scheme (FSCS) costs, which have continued to fall in line with the Scheme's repayment of its outstanding balances with HM Treasury.

  As in prior years, management has conducted a full review to ensure there are no new present obligations, arising from past events, which require the recognition of a provision or disclosure of a contingent liability. Based on the detailed information provided by management, the Audit Committee is satisfied with the overall level of provisions disclosed in the accounts.

- **Income recognition**
  In accordance with IAS 39, the Group applies the effective interest method to recognise mortgage income over the expected behavioural lives of the loans. The Committee has reviewed the effective interest methodology and challenged the expected life assumptions, concluding that interest receivable is accurately reported in the financial statements.

- **Investment property valuations**
  Under IAS 40 'Investment Properties', the portfolio of residential properties held by the Society's subsidiary, West Bromwich Homes Limited, is measured at fair value. The Committee has satisfied itself that the carrying values of the individual properties, a sample of which were substantiated by a firm of specialist valuers, properly reflect their market value at the reporting date.

- **Deferred taxation**
  The Group holds a deferred tax asset on its balance sheet, mainly attributable to carried forward tax losses arising in previous periods. Based on a detailed review of the Group's Medium Term Plan, the Committee considers the year end deferred tax asset to represent an amount recoverable within the next five years.

- **Defined benefit pension liability**
  The Society operates a funded defined benefit pension scheme, details of which are disclosed in note 30 to the accounts. The Committee supports the key assumptions proposed by the qualified independent actuary and used by management to determine the retirement benefit obligation at 31 March 2018.

- **Hedge accounting**
  The Committee evaluated the Society's approach to hedging during the year, including improvements to the underlying processes, concluding that the rules prescribed by IAS 39 'Financial Instruments: Recognition and Measurement' had been adequately applied and disclosed.

- **Accounting standard updates**
  The Committee confirmed the reasonableness of the disclosures with regards to new or amended accounting standards. In particular, the Committee is satisfied with the information given about the Group's implementation of IFRS 9 'Financial Instruments' and the estimated impact of adopting IFRS 9 with effect from 1 April 2018. The Audit Committee has received regular updates on the Society's approach to addressing the complex requirements of the expected loss provisioning approach set out in IFRS 9. It has reviewed the estimates and assumptions integral to these new impairment methodologies.

- **Post balance sheet event**
  After the end of the reporting period, the Society completed a modernisation of its capital structure through the issue of Core Capital Deferred Shares (CCDS). The Committee deems the disclosures made in the Annual Report and Accounts, in relation to this post balance sheet event, to be an accurate reflection of the nature and impact of the transaction.

- **Going concern and viability statement**
  The Committee considered the ongoing appropriateness of the going concern assumption and also reviewed the longer-term viability assessment, as disclosed in the Directors' Report. In doing so, it adopted a rigorous approach, evaluating capital and liquidity adequacy under existing and stressed conditions. The Committee appraised the business model in terms of sustainable profitability, level of regulatory support and ability to continue to trade. Based on this review, the Committee agreed the preparation of the accounts on a going concern basis.

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

- **External audit**
  The Committee considered matters raised during the statutory external audit and concluded that there were no adjustments required which were material to the financial statements.

b) Risk and internal control

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

Further details of actual risk management practices are provided in the Risk Management Report on pages 21 to 25. Through the Committee, the Society's Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework. The information received and considered by the Committee during the 2017/18 financial year provided reasonable assurance that there were no material breaches of control and that, overall, the Society maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code.

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

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

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

As part of the external audit process, the external auditor provides internal control reports. During the year, KPMG LLP did not highlight any material control weaknesses.

The Committee recommends an external 'effectiveness review' of Internal Audit every three years. A review was carried out during this financial year by an external firm appointed by the Committee. In performing their review, information was gathered from a variety of sources including interviews with key business stakeholders, workshops with the Internal Audit team, and a review of key documentation covering all aspects of the Internal Audit function (including file reviews). An external assessment of Internal Audit's readiness to comply with the Chartered Institute of Internal Auditors recommendations on 'Effective Internal Audit in the Financial Services sector', issued in July 2013 (and updated in September 2017), was also included.

The review concluded that the Internal Audit function is operating effectively in providing assurance to the Committee and a wide range of key stakeholders.

c) External auditor

KPMG, as KPMG Audit Plc, and since 29 July 2014 as KPMG LLP, has been the Society's auditor since 1993. KPMG are due to rotate off the audit following the year ended 31 March 2021 at the latest. The previous audit partner has rotated off the engagement for independence purposes in line with the FRC Ethical Standard.

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

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

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

Audit Committee effectiveness

The effectiveness of the Committee was assessed by an external firm in February 2018. The scope of this review considered time management and composition, Committee processes and support, the work of the Committee and future priorities. This review concluded that the Committee operated effectively, being highly rated in each of the areas reviewed.

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

On behalf of the Board

Colin Walklin
Chairman of Audit Committee
30 May 2018

Directors' Remuneration Report

I am pleased to present the Directors' Remuneration Report which sets out details of pay, benefits and performance-related pay for Directors.

Annual Statement by the Chairman of the Remuneration Committee

The Remuneration Committee has decided to adopt voluntarily the relevant requirements of the UK Corporate Governance Code, in so far as they are considered appropriate for a building society. The tables marked 'audited' in this report are requirements of the Building Societies Act 1986. The report also complies with the third EU Capital Requirements Directive and the detailed requirements of the Financial Conduct Authority's (FCA's) Remuneration Code (the Code). Details of the Code can be found at www.fca.org.uk.

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 (Code Staff). This includes all Executive and Non-Executive Directors and all members of the Society's Executive Committee (ExCo).

This report is presented in two sections:

- The Remuneration Policy – setting out the Remuneration Committee's forward-looking policy with regard to pay and benefits. It is the Committee's intention that this policy will apply with effect from the Annual General Meeting (AGM), following a binding vote by members. Only one material change to the Policy is proposed which, if approved by members, will be applicable from the financial year 2019/20. This proposed change, which the Remuneration Committee is recommending based upon input from its independent external advisers and is supported by the Board, would be to increase the maximum annual opportunity for performance-related pay for Executive Directors from up to 50% of basic salary to up to 75% of basic salary. Should this policy be approved, no further binding vote would be required for another three years, unless further changes to the policy were proposed, in which case a vote would be required before those changes could be implemented.
- The Annual Remuneration Report – detailing the amounts earned by Directors in respect of the financial year ended 31 March 2018 and how the policy will operate for the year ending 31 March 2019.

All eligible members receive a copy of the Remuneration Report and are entitled to participate in the binding vote on the Remuneration Policy and an advisory vote on the Annual Remuneration Report at the 2018 AGM.

As reported in the Chief Executive's Review, the Society performed strongly in 2017/18 with underlying profitability up 14% to £8.8m. New residential lending of £837m contributed to a 13% increase in the prime owner occupied book, while the Society's exposure to riskier commercial lending continued to reduce, down 17% year on year.

As previously reported, Mr Ashraf Piranie took up the role as Group Finance & Operations Director as of 13 March 2017. The package offered to Mr Piranie was in line with that outlined in the Remuneration Policy. In accordance with this Policy, the Board agreed to compensate Mr Piranie, who was required to forego an element of his performance-related pay awards from his previous employer. It was agreed that this compensation would replicate, as far as possible, the amount and terms that he would have received had he stayed in post. Accordingly, during the 2017/18 financial year, Mr Piranie received a payment of £56,800.

For the financial year 2017/18 the Chief Executive received a pay increase of 2%, the same as the increase given to all other eligible staff. Mr Piranie, having been appointed as Group Finance & Operations Director on 13 March 2017, received no increase for 2017/18. On 1 April 2018 both Executive Directors received an increase of 2.25%, again matching the general increase given to other eligible staff.

The Executive Director Performance-Related Pay Award payable to the Chief Executive and Group Finance & Operations Director generated awards of between 41.8% and 43.5% of salary. These payments reflect the delivery of financial measures, the management of risk, both credit risk and operational risk, customer and people measures and new and enhanced operational capabilities.

Deferred performance-related payments in relation to 2014/15, 2015/16 and 2016/17 for the Chief Executive and former Group Finance & Operations Director have been approved for payment since the end of the 2017/18 financial year. The current Group Finance & Operations Director has received no such payments.

Fees for the Chairman and other Non-Executive Directors were reviewed for the 2017/18 financial year and no increases were applied. A further review for the 2018/19 financial year also resulted in no increase in fees for the Chairman or any Non-Executive Director.

Martin Ritchley
Chairman of Remuneration Committee
30 May 2018

Remuneration Committee membership and responsibilities

Membership

The members of the Remuneration Committee during the financial year 2017/18 were: Martin Ritchley, Mark Nicholls, Claire Hafner (until 27 July 2017), Mark Preston and Julie Hopes (from 27 July 2017).

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

The Society's Chief Executive, Group Finance & Operations Director, Group Secretary and Divisional Director Human Resources attend meetings by invitation.

Responsibilities

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

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

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

The Committee considered the following matters during the year:

- Determining the pay and benefits of Executive Directors, the Chairman, Code Staff and other senior managers and recommending to the Board for approval;
- Determining the pay and benefits for staff;
- Determining the level of performance-related pay in relation to the 2016/17 financial year and deferred awards due during the year for Code Staff and recommending to the Board for approval;
- Recommending to the Board the Society and individual performance-related pay objectives for Code Staff in relation to the 2018/19 financial year;
- Considering the approach to be adopted in respect of disclosure requirements in relation to this report; and
- Considering the approach for the Gender Pay Regulations.

The Committee receives an annual report, prepared jointly by the Group Secretary, Chief Financial Risk Officer and the Divisional Director Internal Audit. This report provides information on whether any activity or behaviour by any individual has been identified or observed which should affect their eligibility to participate in performance-related pay arrangements. No such behaviours were reported.

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

The Terms of Reference for the Committee were last updated in March 2018. The Terms of Reference are available on request from the Group Secretary.

Advisors

During the year the Remuneration Committee used the services of Deloitte LLP to provide independent advice on executive remuneration. Deloitte is a founding member of the Remuneration Consulting Group and as such voluntarily operating under the Code of Conduct in relation to the executive remuneration consulting.

Section 1 – The Remuneration Policy

Background

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

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

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

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

The Society's remuneration principles are as follows:

- The Policy is in line with the strategy, objectives and values of the Society, thereby aligning it with both short and long-term interests;
- The policies, procedures, remuneration practices and performance-related payment schemes are consistent with the promotion of good and effective risk management and are structured in such a way as to discourage risk taking which is outside the Society's risk appetite;
- The Society's focus is on improving the underlying business position where management can influence performance. The Society's performance-related pay schemes may therefore exclude the impact of specific one-off items which would be agreed at the outset by the Society's Board following a recommendation by the Remuneration Committee;
- All remuneration packages are designed such that the Society can attract and retain high calibre individuals;
- Performance measures for individuals are challenging and robust and measured on a consistent basis; and
- Performance-related pay is performance dependent, an element of which is deferred over a three year period, to allow the Remuneration Committee to review whether the payment remains appropriate, and providing the ability to reduce or cancel the payment.

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

Remuneration policy and practice

Components of remuneration

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

Component	Operation and performance metrics	Opportunity
Basic salary Fixed remuneration set to attract and retain Executives of sufficient calibre through the payment of competitive rates.	Reviewed annually (or more frequently if required). Influencing factors include: role and experience, personal performance, benchmarking comparisons and salary increases awarded across the Society.	Set at a level considered appropriate, taking into account the relevant factors tabled. The Committee considers very carefully any pay awards which do not reflect the wider increases across the Society and will only make them where there is a clear commercial rationale for doing so.
Performance-related pay Linked to the delivery of Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives.	40% of the performance-related pay earned is deferred over a three year period. Deferred payments are made in equal instalments over the following three years, are subject to annual review and recommendation by the Committee and require approval by the Non-Executive members of the Board. The Committee has discretion to adjust or recover awards if necessary including withholding vested awards (malus arrangements) and recovering payments (clawback arrangements). All awards are non-pensionable. Based on a number of measures, including: financial, customer, people, risk and new and enhanced operational capabilities. Reviewed by the Committee annually to ensure that the measures are appropriate.	Maximum annual opportunity is 50% of basic salary, which will increase to 75% for financial years commencing 2019/20 should the Board recommended policy change be approved by members at the 2018 AGM.
Pension or pension allowance A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors are invited to join the Society's stakeholder pension plan or, as an alternative, be provided with a cash allowance.	A cash allowance of up to 25% of basic salary for the Executive Directors.
Benefits A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors receive benefits in line with market practice, which include a fully expensed car or cash allowance, private medical care for themselves and their family, and life assurance. Other benefits may be provided in individual circumstances.	Set at a level considered appropriate by the Committee.

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

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

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

Recruitment policy for Executive Directors

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

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

Component	Application
Basic salary	A Director would receive an amount commensurate with their experience and responsibilities.
Benefits	A Director would receive comparable benefits to existing Directors, although if required to attract the right candidate these may be widened to include additional benefits, such as a relocation allowance.
Performance-related pay	The maximum performance-related award would be in line with current policy, unless the market rate required to recruit the individual supported a higher amount. In any event, this would be no more than what is considered commercially justifiable.
Pension or pension allowance	A Director would have the option to join the Society's stakeholder pension scheme or to receive a cash allowance of up to 25% of salary.
Recruitment compensation	Compensation arrangements are only considered if the new Director was required to forego an arrangement from their previous employer. In such instances the award would be no more in terms of amount than the award due to be foregone. The timing and vesting requirements of any payment would be replicated as far as possible.

The Committee has discretion within the Policy to make remuneration decisions where it considers it necessary to do so. In setting remuneration arrangements for new hires, the Committee will consider the value of the package on offer compared to similar positions in the market, the structure of the remuneration and the experience of the candidate, to ensure that arrangements are in the best interests of both the Society and its members, without paying in excess of what is deemed necessary to recruit a Director of the required calibre.

Recruitment policy for Non-Executive Directors

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

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

Service contracts

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

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

Policy on payment for loss of office

The Committee's approach is to pay no more than is necessary in such circumstances. Since 2012, the Society's policy is for new contracts to require Executive Directors to mitigate the Society's loss in the event of receiving a 'loss of office' payment.

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

Section 1 – The Remuneration Policy (continued)

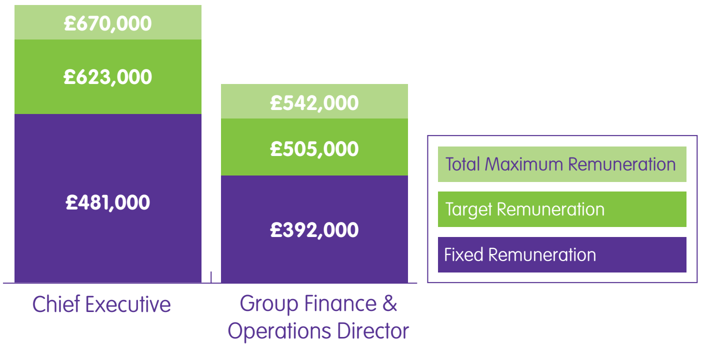
Employment conditions elsewhere in the Society

The pay and benefits of staff are considered annually by the Committee, which also determines the amount of general performance-related pay. The Society, subject to eligibility, offers a comprehensive range of benefits to staff, including pension, life assurance, health care and performance-related pay.

Remuneration scenarios

The following charts show the breakdown of the component parts of the remuneration package for Executive Directors for 2017/18 on the following basis:

- Fixed remuneration – comprising of basic salary, pension and benefits (excluding compensation for the Group Finance & Operations Director in respect of performance-related pay foregone from his previous employer, as explained on page 43).
- Target remuneration – the anticipated annual remuneration incorporating a performance-related award.
- Maximum remuneration – the maximum remuneration that could be awarded.



When developing the scenarios, the following assumptions were made:

- Fixed remuneration includes basic salary, pension and benefits (excluding compensation for the Group Finance & Operations Director in respect of performance-related pay foregone from his previous employer, as explained on page 43) only;
- Target remuneration is based on a performance-related award of 37.5% of basic salary; and
- Maximum award is based on a performance-related award of the maximum achievable which is 50% of basic salary.

Section 2 – Annual Report on Remuneration

Non-Executive Director fees (audited)

Non-Executive Director	Date appointed	2017/18 Fees £000	2017/18 Benefits (1) £000	2016/17 Fees £000	2016/17 Benefits (1) £000
Mark Nicholls (Society Chairman)	01/01/10	**120**	**3**	120	5
Claire Hafner (until 27/07/17)	01/09/11	**16**	**1**	50	5
Julie Hopes	01/04/16	**50**	**3**	50	5
Mark Preston (Risk Committee Chairman from 01/09/17)	18/05/11	**55**	**4**	50	4
Martin Ritchley (Deputy Chairman & Remuneration Committee Chairman)	01/09/09	**70**	**2**	70	2
Richard Sommers (Risk Committee Chairman until 31/08/17)	01/10/09	**55**	**4**	60	6
Colin Walklin (Audit Committee Chairman)	20/07/11	**60**	**4**	60	5
James Turner	01/04/17	**50**	**3**	-	-
Total		**476**	**24**	460	32

Notes:
1. In addition to the payment of fees, Non-Executive Directors receive expenses for travel and accommodation in relation to their attendance at meetings.

Executive Director remuneration – 2017/18 (audited)

Executive Director		Basic salary £000	Performance-related pay (1) £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff	(Chief Executive)	378	164	94	9	**645**
Ashraf Piranie	(Group Finance & Operations Director)	300	125	75	74[3]	**574**
Total		**678**	**289**	**169**	**83**	**1,219**

Executive Director remuneration – 2016/17 (audited)

Executive Director		Basic salary £000	Performance-related pay (1) £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff	(Chief Executive)	370	142	93	26	631
Ashraf Piranie	(Group Finance & Operations Director from 13 March 2017)	16	-	4	1	21
Mark Gibbard[2]	(Group Finance & Operations Director to 13 March 2017)	291	126	58	29	504
Total		677	268	155	56	1,156

Notes:
1. Included in the amounts shown above is an element that is subject to deferral. The table overleaf headed 'Executive Director deferred performance-related pay payable in future years' details the amount due for payment, subject to review by the Committee at the appropriate time.
2. In March 2016 Mr Gibbard informed the Board of his intention to retire on 31 March 2017. Mr Gibbard worked his full notice period, he handed over his role of Group Finance & Operations Director on 13 March 2017 and retired from the Board on 31 March 2017. Other than deferred performance-related pay awards which may become payable in future years (as described overleaf) there are no further payments due to him.
3. Mr Piranie received compensation of £56,800 which was determined with reference to the amount of performance-related pay award that he would have received from his previous employer if he had stayed in post.

Section 2 – Annual Report on Remuneration (continued)

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

Executive Director deferred performance-related pay
Payable in future years

Executive Director	Deferred from	Payable after year ending 2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Jonathan Westhoff	2014/15	20	-	-	-
	2015/16	20	20	-	-
	2016/17	19	19	19	-
	2017/18	-	22	22	22
Total		**59**	**61**	**41**	**22**
Mark Gibbard	2014/15	16	-	-	-
	2015/16	16	16	-	-
	2016/17	17	17	17	-
Total		**49**	**33**	**17**	**-**
Ashraf Piranie	2017/18	-	17	17	17
Total		**-**	**17**	**17**	**17**

Deferred elements due after the year ending 2017/18 (shown in the table above) have subsequently been approved by the Board for payment.

Statement on member voting at the 2017 AGM

At the 2017 AGM members voted in favour of approving the Directors' Remuneration Report as shown below:

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Report	15,814	89.63%	1,830	338

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

Application of the Remuneration Policy for 2018/19

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

The Remuneration Committee undertook a benchmarking exercise of all Director remuneration to include the Executive Directors, Non-Executive Directors and the Chairman during the 2017/18 financial year. In light of the benchmarking report, a recommendation was made by the Committee, and approved by the Board, to increase the maximum potential performance-related pay award for Executive Directors from up to 50% to up to 75% of basic salary for 2019/20. This proposal is subject to member approval at the 2018 AGM.

A recommendation was also made by the Remuneration Committee and subsequently approved by the Board, to increase the basic annual salary of the Chief Executive from £377,665 to £386,162 and Group Finance & Operations Director from £300,000 to £306,750 from 1 April 2018, representing a 2.25% award.

The annual salary review for eligible staff, which provided an increase of 2.25%, was applied from 1 April 2018.

Non-Executive Directors, including the Chairman, received no increase in fees from April 2018.

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

Martin Ritchley
Chairman of Remuneration Committee
30 May 2018

KPMG

Independent auditor's report

to the members of West Bromwich Building Society

1. Our opinion is unmodified

We have audited the Group and Society annual accounts of West Bromwich Building Society for the year ended 31 March 2018 which comprise the Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Members' Interests, Statements of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Group and of the Society as at 31 March 2018 and of the income and expenditure of the Group and of the Society for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee. We were appointed as auditor by the members in 1993. The period of total uninterrupted engagement is for the 26 financial years ended 31 March 2018.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:		£350k (2017: £1,000k)
Group annual accounts as a whole		4.0% of Group profit before tax (2017: 0.92% of Group interest receivable)
Coverage		100.0% of Group profit before tax (2017:100.0% of Group interest receivable)
Risks of material misstatement		**vs 2017**
Recurring risks	Allowance for losses on loans and advances FSOL	◀▶
	Allowance for losses on loans and advances FSRP	◀▶
	Revenue recognised based on the effective interest rate method	◀▶
	Valuation of investment properties	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters for the Group and where relevant, the Society, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Allowance for losses on loans and advances to customers fully secured on land ('FSOL') (Group: £42.1 million; 2017: £39.4 million) Refer to page 36 (Audit Committee Report), page 63 (accounting policy) and pages 73 to 74 (financial disclosures).	**Subjective estimate** Impairments cover individual loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. Due to the significance of loans and advances to customers and the related judgement applied by the directors in assessing the level of impairment, this is considered a key audit risk. Individual impairment of FSOL loans is considered for loans in arrears more than 90 days past due, or in arrears less than 90 days past due but with an arrears balance above a set threshold, loans past their scheduled maturity, loans where an LPA Receiver has been appointed or loans otherwise determined at the further discretion of the Directors. The individual impairment provision is derived from a model which determines the present value of estimated future cash flows attributable to the individual loans. In particular, judgement is required on the key assumptions of rental yields achieved on the commercial property, exit yields and interest rates as well as the Group's strategy for management and realisation of security. The overall level of impairment recognised is also sensitive to adjustments made to the collective provision outside the Group's models.	Our procedures included: – **Benchmarking assumptions:** We compared the key assumption of exit yields to externally available data on market yields for equivalent property types to critically assess the assumptions applied; – **Our market expertise:** Our in-house valuation specialists critically assessed the interest rate curve applied in the impairment assessment against market data and forecasts; – **Tests of details:** We challenged the appropriateness of assumptions regarding rental yields and other cash flows on individual accounts by comparing these to supporting documentation, such as lease agreements, market valuations and other evidence; – **Historical comparisons:** We considered the appropriateness of assumptions regarding rental yields and other cash flows on individual accounts by comparing these to actual rental or other income received in recent periods; – **Tests of details:** We considered adjustments made outside the Group's models by challenging the reason behind the adjustment and quantifying the potential exposures giving rise to the need for these further adjustments. – **Assessing transparency:** We evaluated the adequacy of the Group's disclosures in note 1 regarding the degree of estimation involved in arriving at the impairment balance and the sensitivity to key assumptions. **Our results** – We found the resulting estimate of impairment for FSOL loans to be acceptable (2017: acceptable).

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	The risk	Our response
Allowance for losses on loans and advances fully secured on residential property ('FSRP') (Group and Society: £13.2 million; 2017: £16.3 million, and Society: £8.4 million; 2017: £8.8 million) Refer to page 36 (Audit Committee Report), page 63 (accounting policy) and pages 73 to 74 (financial disclosures).	**Subjective valuation** Impairments cover individual loans identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. Due to the significance of loans and advances to customers and the related judgement applied by the directors in assessing the level of impairment, this is considered a key audit risk. Individual and collective impairment of FSRP loans is derived from models that use a combination of the Group's and Society's historical experience, adjusted for current conditions. In particular, judgement is required on the default rates and loss given defaults, the latter of which incorporates assumptions over the value of security, including the application of a house price index, forced sale discounts and associated selling costs. The Society also holds a portfolio of equity release mortgages. In addition to the above assumptions, this model also requires judgement on mortality assumptions which inform expected future redemptions. The overall level of impairment recognised is also sensitive to adjustments made outside the Group's models.	Our procedures included: – **Benchmarking assumptions:** We compared the key assumptions used in the model of forced sale discount and selling costs with comparable lenders and, for the house price index, to externally available data. We also compared the mortality assumptions in the equity release model to externally available data. – **Historical comparison:** We critically assessed certain assumptions used in the model, including probabilities of default, forced sale discounts and selling costs, against the Group's and Society's historical experience; – **Sensitivity analysis:** We assessed the provision model for its sensitivity to changes in the key assumptions of forced sale discounts, selling costs and house price movements by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus; – **Tests of detail:** We tested adjustments made outside the Group's and Society's models, by considering the reason for the adjustment and the source data used; – **Tests of detail:** We identified a selection of loans by filtering data from loan book reports and examined accounts with specific risk criteria, such as interest only accounts or high LTV accounts, to identify individual loans which may have unidentified impairments or may otherwise present an additional exposure to the Group and Society. We tested the provision attached to these loans by considering the appropriateness of assumptions and assessing exposures based on collateral values, as well as considering whether there was a need for further adjustment outside the model to capture any such exposures; – **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the degree of estimation involved in arriving at the provision. **Our results** – We found the resulting estimate of impairment for FSRP loans to be acceptable (2017: acceptable).

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	The risk	Our response
Revenue recognition based on the effective interest rate method (Group £93.7 million; 2017: £99.2 million; Society: £65.6 million; 2017: £64.9 million) Refer to page 36 (Audit Committee Report), page 61 (accounting policy) and page 67 (financial disclosures).	**Subjective estimate** Interest earned and fees earned and incurred on loans and advances to customers are recognised using the effective interest rate ("EIR") method that spreads directly attributable expected income over the expected lives of the loans. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loan. This judgement is informed by product mix and past customer behaviour of when loans are repaid.	Our procedures included: – **Benchmarking assumptions:** We critically assessed the expected customer lives against our own knowledge of industry experience and trends, including benchmarking with comparable lenders; – **Sensitivity analysis:** We observed sensitivity analysis performed using parameters determined by us for judgemental assumptions, including expected customer lives, to critically assess which of these the EIR asset was most sensitive to; – **Historical comparison:** We critically assessed the reasonableness of the model's expected repayment profile assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance; – **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the interest income recognised and sensitivity to key assumptions. **Our results** – We found the resulting estimate of interest income to be acceptable (2017: acceptable).
Valuation of investment properties (Group £132.2 million; 2017: £128.9 million) Refer to page 36 (Audit Committee Report), page 61 (accounting policy) and page 77 (financial disclosures).	**Subjective valuation** A portfolio of residential investment properties is held by West Bromwich Homes Ltd. These investment properties are carried at fair value, with changes in the fair value recognised in the Income Statement. The Directors assess the fair value of the properties with reference to current market prices, including the use of internal and external valuers. Particularly given the number and location of properties in the portfolio, there is significant uncertainty in the calculation of fair value of the properties and the associated assumptions over house price movements.	Our procedures included: – **Control operation:** We tested the operating effectiveness of the control over the identification and investigation of valuation differences between a sample of internal valuations and those provided by one of the Group's appointed external valuers; – **Benchmarking assumptions:** We challenged the valuations applied by comparing the movement in value of the portfolio to externally available house price indices at both a national and regional level; – **Tests of details:** For a selection of properties, we agreed valuation records to reports provided by the Group's appointed external valuers; – **Historical comparision:** We critically assessed the accuracy of the valuation applied by comparing historical valuations to actual sales prices achieved in the year; – **Assessing valuers' credentials:** We evaluated the competence, objectivity and independence of experts engaged by the Directors to perform property valuations; – **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the judgements made in determining a valuation and the sensitivity to key assumptions. **Our results** – We found the resulting valuation of investment property to be acceptable (2017: acceptable).

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3. Our application of materiality and an overview of the scope of our audit

Materiality

Materiality for the Group annual accounts as a whole was set at £350k (2017: £1,000k), determined with reference to a benchmark of Group profit before tax, of which it represents 4.0% (2017: 0.92% of Group interest receivable).

Materiality for the Society annual accounts as a whole was set at £300k (2017: £530k), determined with reference to a benchmark of profit before tax, normalised to exclude dividend income and this year's impairment of investments in subsidiaries, of which it represents 3.0% (2017: 0.82% of interest receivable on loans fully secured on residential property).

Our 2017 materiality for both the Group and Society annual accounts was determined with reference to a benchmark of interest receivable following the Court of Appeal's judgement in June 2016 and the consequent impact on profit for that financial year. As a result of profitability levels returning to normalised levels, we have resumed using profit before tax as our benchmark for the 2018 annual accounts.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £17k (2017: £50k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scope – Group

We subjected all Group entities to full scope audits therefore accounting for a scope in line with the percentages illustrated opposite.

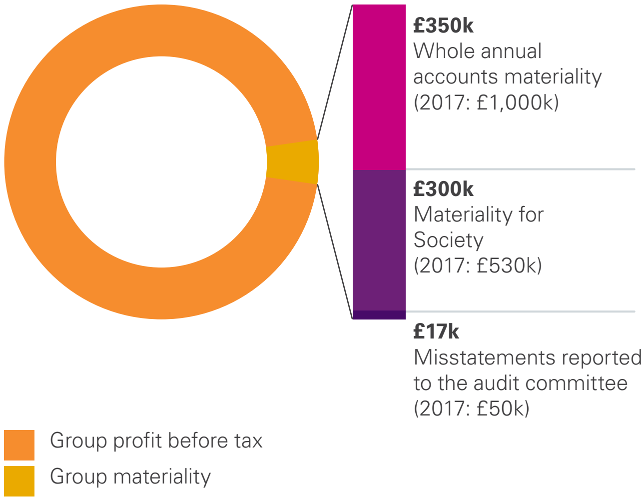
Scope – disclosure of IFRS 9 effect

The Group is adopting IFRS 9 Financial Instruments from 1 April 2018 and has included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 Changes in Accounting Estimates and Errors as set out in note 1. While further testing of the financial impact will be performed as part of our 2019 year end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. We spent considerable time assessing the key areas of judgement inherent in the IFRS 9 transition which supports our assessment of the appropriateness of the disclosure but also supports our 2019 year end audit. Specifically we have:

- Considered the appropriateness of key technical decisions, judgements, assumptions and elections made by management;
- Considered key classification and measurement decisions, including business model assessments and solely payment of principal and interest (SPPI) outcomes;
- Involved credit risk modelling and economic specialists in the consideration of credit risk modelling decisions and macroeconomic variables, including forward economic guidance and generation of multiple economic scenarios; and
- Considered transitional controls and governance processes related to the approval of the estimated transitional impact.

Group profit before tax
£8.8m (2017: £108.9m interest receivable)

Group materiality
£350k (2017: £1,000k)



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

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 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.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 29 to 30, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified relevant areas of laws and regulations, that could have a material effect on the annual accounts, from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the annual accounts including financial reporting (including related building society legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct including PPI mis-selling and certain aspects of building society legislation recognising the financial and regulated nature of the Group's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual account items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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8. The purpose of our audit work and to whom we owe our responsibilities

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.

Andrew Walker
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

30 May 2018

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Income Statements

for the year ended 31 March 2018

	Notes	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Interest receivable and similar income	2	97.3	108.9	93.3	103.8
Interest expense and similar charges	3	(41.8)	(53.6)	(41.2)	(53.5)
Net interest receivable		55.5	55.3	52.1	50.3
Fees and commissions receivable		2.7	2.7	2.9	2.9
Other operating income	4	3.8	4.1	9.6	37.4
Fair value gains/(losses) on financial instruments	12	2.5	(0.2)	4.0	(0.6)
Net realised profits	5	-	0.5	-	0.5
Total income		64.5	62.4	68.6	90.5
Administrative expenses	6	(43.5)	(44.4)	(40.0)	(40.4)
Depreciation and amortisation	16,18	(7.2)	(5.7)	(7.2)	(5.7)
Operating profit before revaluation gains, impairment and provisions		13.8	12.3	21.4	44.4
Gains on investment properties	17	3.8	5.4	-	-
Impairment on loans and advances	14	(7.9)	(7.6)	(0.6)	1.2
Provisions for liabilities	25	(0.9)	(29.9)	(0.9)	(2.3)
Provisions against investments in subsidiary undertakings	15	-	-	(14.2)	(37.5)
Profit/(Loss) before tax		8.8	(19.8)	5.7	5.8
Taxation	9	(0.9)	(6.0)	0.1	(3.0)
Profit/(Loss) for the financial year		7.9	(25.8)	5.8	2.8

The profit/(loss) for the year derives wholly from continuing operations.

The notes on pages 59 to 114 form part of these accounts.

Statements of Comprehensive Income

for the year ended 31 March 2018

	Notes	Group 2018 £m	Group 2017 £m
Profit/(Loss) for the financial year		**7.9**	(25.8)
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Available for sale investments			
Valuation (losses)/gains taken to equity		**(1.1)**	0.5
Amounts transferred to Income Statement		**-**	(0.5)
Cash flow hedge gains/(losses) taken to equity		**0.8**	(0.5)
Taxation	29	**0.1**	0.1
Items that will not subsequently be reclassified to profit or loss			
Gains on revaluation of land and buildings		**-**	0.6
Actuarial losses on defined benefit obligations	30	**(1.6)**	(10.4)
Amortisation of original discount on subscribed capital		**-**	0.1
Taxation	29	**0.4**	1.7
Other comprehensive income for the financial year, net of tax		**(1.4)**	(8.4)
Total comprehensive income for the financial year		**6.5**	(34.2)

	Notes	Society 2018 £m	Society 2017 £m
Profit for the financial year		**5.8**	2.8
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Available for sale investments			
Valuation (losses)/gains taken to equity		**(1.1)**	0.5
Amounts transferred to Income Statement		**-**	(0.5)
Taxation	29	**0.2**	-
Items that will not subsequently be reclassified to profit or loss			
Gains on revaluation of land and buildings		**-**	0.6
Actuarial losses on defined benefit obligations	30	**(1.6)**	(10.4)
Amortisation of original discount on subscribed capital		**-**	0.1
Taxation	29	**0.4**	1.7
Other comprehensive income for the financial year, net of tax		**(2.1)**	(8.0)
Total comprehensive income for the financial year		**3.7**	(5.2)

The notes on pages 59 to 114 form part of these accounts.

Statements of Financial Position

at 31 March 2018

	Notes	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Assets					
Cash and balances with the Bank of England	10	**324.7**	294.8	**324.7**	294.8
Loans and advances to credit institutions		**120.6**	174.0	**49.2**	91.7
Investment securities	11	**311.9**	385.0	**1,029.4**	1,195.5
Derivative financial instruments	12	**19.5**	6.3	**19.5**	6.2
Loans and advances to customers	13	**4,805.4**	4,776.5	**2,956.8**	2,663.7
Deferred tax assets	19	**15.3**	16.4	**12.1**	11.7
Trade and other receivables	20	**6.4**	3.5	**6.4**	3.3
Investments	15	**-**	-	**1,350.6**	1,526.9
Intangible assets	16	**15.3**	13.3	**14.7**	12.7
Investment properties	17	**132.2**	128.9	**-**	-
Property, plant and equipment	18	**30.2**	32.1	**30.2**	32.1
Total assets		**5,781.5**	5,830.8	**5,793.6**	5,838.6
Liabilities					
Shares	21	**4,051.4**	4,427.3	**4,051.4**	4,427.3
Amounts due to credit institutions		**571.3**	450.3	**571.3**	450.3
Amounts due to other customers	22	**133.1**	132.7	**625.8**	390.3
Derivative financial instruments	12	**38.7**	69.0	**31.5**	59.7
Debt securities in issue	23	**493.3**	263.2	**-**	-
Deferred tax liabilities	19	**4.5**	5.0	**0.8**	1.0
Trade and other payables	24	**12.0**	10.2	**10.9**	9.4
Provisions for liabilities	25	**2.1**	3.1	**2.0**	3.0
Retirement benefit obligations	30	**5.1**	6.5	**5.1**	6.5
Total liabilities		**5,311.5**	5,367.3	**5,298.8**	5,347.5
Equity					
Profit participating deferred shares	27	**175.0**	173.0	**175.0**	173.0
Subscribed capital	26	**75.0**	75.0	**75.0**	75.0
General reserves		**215.8**	211.0	**240.6**	237.9
Revaluation reserve		**3.4**	3.5	**3.4**	3.5
Available for sale reserve		**0.8**	1.7	**0.8**	1.7
Cash flow hedging reserve		**-**	(0.7)	**-**	-
Total equity attributable to members		**470.0**	463.5	**494.8**	491.1
Total liabilities and equity		**5,781.5**	5,830.8	**5,793.6**	5,838.6

The accounting policies and notes on pages 59 to 114 form part of these accounts.

Approved by the Board of Directors on 30 May 2018 and signed on its behalf by:

Mark Nicholls
Chairman

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance & Operations Director

Statements of Changes in Members' Interest

for the year ended 31 March 2018

Group	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2017	173.0	75.0	211.0	3.5	1.7	(0.7)	**463.5**
Profit for the financial year	2.0	-	5.9	-	-	-	**7.9**
Other comprehensive income for the period (net of tax)							
Available for sale investments	-	-	-	-	(0.9)	-	**(0.9)**
Actuarial losses on defined benefit obligations	-	-	(1.2)	-	-	-	**(1.2)**
Realisation of previous revaluation gains	-	-	0.1	(0.1)	-	-	**-**
Cash flow hedge gains	-	-	-	-	-	0.7	**0.7**
Total other comprehensive income	**-**	**-**	**(1.1)**	**(0.1)**	**(0.9)**	**0.7**	**(1.4)**
Total comprehensive income for the year	**2.0**	**-**	**4.8**	**(0.1)**	**(0.9)**	**0.7**	**6.5**
At 31 March 2018	**175.0**	**75.0**	**215.8**	**3.4**	**0.8**	**-**	**470.0**

for the year ended 31 March 2017

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 2016	179.5	74.9	239.3	3.4	0.9	(0.3)	497.7
Loss for the financial year	(6.5)	-	(19.3)	-	-	-	(25.8)
Other comprehensive income for the period (net of tax)							
Amortisation of original discount on subscribed capital	-	0.1	-	-	-	-	0.1
Available for sale investments: reallocation of tax	-	-	(0.8)	-	0.8	-	-
Actuarial losses on defined benefit obligations	-	-	(8.5)	-	-	-	(8.5)
Gains on revaluation of land and buildings	-	-	-	0.4	-	-	0.4
Realisation of previous revaluation gains	-	-	0.3	(0.3)	-	-	-
Cash flow hedge losses	-	-	-	-	-	(0.4)	(0.4)
Total other comprehensive income	-	0.1	(9.0)	0.1	0.8	(0.4)	(8.4)
Total comprehensive income for the year	(6.5)	0.1	(28.3)	0.1	0.8	(0.4)	(34.2)
At 31 March 2017	173.0	75.0	211.0	3.5	1.7	(0.7)	463.5

Statements of Changes in Members' Interest

for the year ended 31 March 2018

Society	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Total £m
At 1 April 2017	**173.0**	**75.0**	**237.9**	**3.5**	**1.7**	**491.1**
Profit for the financial year	2.0	-	3.8	-	-	**5.8**
Other comprehensive income for the period (net of tax)						
Available for sale investments	-	-	-	-	(0.9)	**(0.9)**
Actuarial losses on defined benefit obligations	-	-	(1.2)	-	-	**(1.2)**
Realisation of previous revaluation gains	-	-	0.1	(0.1)	-	**-**
Total other comprehensive income	**-**	**-**	**(1.1)**	**(0.1)**	**(0.9)**	**(2.1)**
Total comprehensive income for the year	**2.0**	**-**	**2.7**	**(0.1)**	**(0.9)**	**3.7**
At 31 March 2018	**175.0**	**75.0**	**240.6**	**3.4**	**0.8**	**494.8**

for the year ended 31 March 2017

Society	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Total £m
At 1 April 2016	179.5	74.9	237.6	3.4	0.9	496.3
(Loss)/Profit for the financial year	(6.5)	-	9.3	-	-	2.8
Other comprehensive income for the period (net of tax)						
Amortisation of original discount on subscribed capital	-	0.1	-	-	-	0.1
Available for sale investments: reallocation of tax	-	-	(0.8)	-	0.8	-
Actuarial losses on defined benefit obligations	-	-	(8.5)	-	-	(8.5)
Gains on revaluation of land and buildings	-	-	-	0.4	-	0.4
Realisation of previous revaluation gains	-	-	0.3	(0.3)	-	-
Total other comprehensive income	-	0.1	(9.0)	0.1	0.8	(8.0)
Total comprehensive income for the year	(6.5)	0.1	0.3	0.1	0.8	(5.2)
At 31 March 2017	173.0	75.0	237.9	3.5	1.7	491.1

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 59 to 114 form part of these accounts.

Statements of Cash Flows

for the year ended 31 March 2018

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Net cash (outflow)/inflow from operating activities (below)	**(323.4)**	138.7	**(332.0)**	(123.7)
Cash flows from investing activities				
Purchase of investment securities	**(155.6)**	(230.4)	**(188.7)**	(230.4)
Proceeds from disposal of investment securities	**267.7**	213.1	**341.1**	345.2
Proceeds from disposal of investment properties	**0.5**	0.2	**-**	-
Purchase of property, plant and equipment and intangible assets	**(7.1)**	(9.6)	**(7.1)**	(9.6)
Proceeds from disposal of property, plant and equipment	**-**	0.5	**-**	0.5
New funding to subsidiaries	**-**	-	**(52.9)**	(145.1)
Dividends received	**-**	-	**9.8**	37.5
Repayment of funding from subsidiaries	**-**	-	**205.2**	213.3
Net cash flows from investing activities	**105.5**	(26.2)	**307.4**	211.4
Cash flows from financing activities				
Issue of mortgage backed loan notes	**348.5**	-	**-**	-
Repayment of mortgage backed loan notes	**(113.4)**	(106.0)	**-**	-
Net cash flows from financing activities	**235.1**	(106.0)	**-**	-
Net increase/(decrease) in cash	**17.2**	6.5	**(24.6)**	87.7
Cash and cash equivalents at beginning of year	**475.3**	468.8	**445.7**	358.0
Cash and cash equivalents at end of year	**492.5**	475.3	**421.1**	445.7

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

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Cash in hand (including Bank of England Reserve account)	**318.1**	287.6	**318.1**	287.6
Loans and advances to credit institutions	**120.6**	174.0	**49.2**	91.7
Investment securities	**53.8**	13.7	**53.8**	66.4
	492.5	475.3	**421.1**	445.7

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2018, amounted to £6.6m (2016/17: £7.2m). The movement in these balances is included within cash flows from operating activities.

Statements of Cash Flows (continued)

for the year ended 31 March 2018

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Cash flows from operating activities				
Profit/(Loss) on ordinary activities before tax from continuing activities	**8.8**	(19.8)	**5.7**	5.8
Movement in prepayments and accrued income	**(3.0)**	(0.8)	**(3.0)**	(0.8)
Movement in accruals and deferred income	**1.1**	(2.6)	**0.9**	(2.9)
Impairment on loans and advances	**7.9**	7.6	**0.6**	(1.2)
Depreciation and amortisation	**7.2**	5.7	**7.2**	5.7
Revaluations of investment properties	**(3.8)**	(5.4)	**-**	-
Movement in provisions for liabilities	**(1.0)**	0.4	**(1.0)**	0.4
Movement in provisions against investments in subsidiary undertakings	**-**	-	**14.2**	37.5
Movement in derivative financial instruments	**(43.5)**	(5.5)	**(41.5)**	(5.1)
Movement in fair value adjustments	**24.1**	(0.7)	**20.6**	(5.5)
Movement in subscribed capital	**-**	0.1	**-**	0.1
Change in retirement benefit obligations	**(3.0)**	(3.1)	**(3.0)**	(3.1)
Cash flows from operating activities before changes in operating assets and liabilities	**(5.2)**	(24.1)	**0.7**	30.9
Movement in loans and advances to customers	**(69.5)**	(47.7)	**(316.9)**	(280.3)
Movement in loans and advances to credit institutions	**0.6**	(0.5)	**0.6**	(0.5)
Movement in shares	**(373.2)**	45.7	**(373.2)**	45.7
Movement in deposits and other borrowings	**123.1**	167.0	**356.5**	81.6
Movement in trade and other receivables	**0.1**	-	**(0.1)**	0.2
Movement in trade and other payables	**0.6**	(1.7)	**0.3**	(1.3)
Tax received	**0.1**	-	**0.1**	-
Net cash (outflow)/inflow from operating activities	**(323.4)**	138.7	**(332.0)**	(123.7)

The notes on pages 59 to 114 form part of these accounts.

Notes to the Accounts

1. Accounting policies

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

Basis of preparation

The Annual Accounts of the Group and the Society have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the European Union (EU) and effective at 31 March 2018; 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 page 30 of the Directors' Report.

New or amended accounting standards

The following new or amended accounting standards and interpretations, which are relevant to the Group, have been adopted during 2017/18 but have not had a material impact on the Annual Accounts:

- Amendments to IAS 7 'Statement of Cash Flows'
  These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. To satisfy these requirements, a movement analysis table has been added to Note 23 to the Accounts, 'Debt securities in issue'.
- Amendments to IAS 12 'Income Taxes'
  These amendments clarify how to account for deferred tax assets for unrealised losses related to debt instruments measured at fair value.
- Annual improvements to IFRSs 2014-2016 Cycle
  The improvements include amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards', IAS 28 'Investments in Associates and Joint Ventures' and IFRS 12 'Disclosure of Interests in Other Entities'.

Future accounting developments

The following new or amended accounting standards and interpretations have been issued but are not effective for the twelve months ended 31 March 2018. The Group are monitoring developments and considering the associated impact:

- Amendments to IAS 40 'Investment Property'
  The amendments to IAS 40 Investment Property clarify the requirements on transfers to, or from, investment property.
- Annual improvements to IFRSs 2015-2017 Cycle
  These amendments are effective for annual periods beginning on or after 1 January 2019 and the improvements include amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements', IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs'.
- IFRS 9 'Financial Instruments'
  IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and will be implemented in the accounts for the year ended 31 March 2019. The standard introduces new rules for classification and measurement, impairment and hedge accounting for financial instruments.

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

  Each of the Group's financial asset portfolios has been reviewed with reference to the IFRS 9 criteria, which has resulted in an anticipated change in measurement basis for one closed mortgage book:

  - The Society's equity release portfolio is held at amortised cost under IAS 39 with its carrying value being net of impairment provisions. Applying IFRS 9 classification criteria, the loans are expected to be measured at fair value through profit or loss (FVTPL). To satisfy this requirement, a fair valuation model has been developed, the implementation of which does not result in a material adjustment to the carrying value of the equity release mortgages.

  'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' was issued in October 2017. The amendments, which are subject to EU endorsement, are effective for accounting periods beginning on or after 1 January 2019 with early adoption permitted. The Group intends to early adopt the amendments for its financial year ended 31 March 2019, with no significant impact expected.

  Impairment of financial assets
  IFRS 9 replaces the incurred loss model prescribed by IAS 39 with a forward looking expected loss methodology. The impairment requirements apply to all financial assets held at amortised cost or fair value through other comprehensive income, as well as certain loan commitments.

  For the core residential mortgage books, the Society worked collaboratively with external credit risk modelling specialists to deliver an impairment solution which employs industry-accepted statistical techniques to address the complex requirements of the standard. The model components were designed to align the Society's capital and accounting approaches to the estimation of credit losses as closely as possible.

  For the Group's closed mortgage books and high quality liquid asset holdings, simpler impairment methodologies were developed internally, providing technically compliant solutions appropriate to the size and nature of those portfolios.

  IFRS 9 introduces the concept of 'staging'. On initial recognition, a financial asset is categorised as 'stage 1' and provision is made for 12 month expected losses. Accounts in default are termed 'stage 3'. Financial assets which are not in default, but have experienced a significant increase in credit risk since initial recognition, are categorised as 'stage 2'. IFRS 9 dictates the recognition of a lifetime expected loss allowance for assets in stage 2 or stage 3.

1. Accounting policies (continued)

Determining whether a significant increase in credit risk has occurred is a critical aspect of the IFRS 9 methodology and one which involves judgement, based on a combination of quantitative and qualitative measures. The core residential impairment model incorporates quantitative factors for identifying a significant increase in credit risk by comparing reporting date lifetime probability of default (PD) with residual origination lifetime PD. In addition, a range of internally monitored potential impairment indicators have been selected as qualitative criteria for classifying a loan as stage 2. While the Society's criteria for assessing a significant increase in credit risk vary by portfolio, all models include the IFRS 9 backstop of 30 days past due as a stage 2 trigger.

IFRS 9 expects the calculation of expected credit losses to be unbiased and incorporate multiple, probability-weighted outcomes taking into account all reasonable and supportable information, including forecasts of future economic conditions. The Group's impairment models incorporate three forward-looking scenarios: a central forecast with economic assumptions aligned to the Society's Medium Term Plan (and therefore assigned the highest probability), an upside scenario and a downside forecast. The assumptions surrounding macroeconomic variables and the relative weightings of the scenarios represent key areas of judgement which will be described in more detail in the 2018/19 financial statements.

It is currently anticipated that the earlier recognition of credit losses under IFRS 9 will result in a reduction to general reserves of approximately £15m. This impact mainly arises on the non-core commercial loan portfolio, where low confidence levels and risk in the Retail sector outlook affect the level of provision requirements (via lower recoverable amounts modelled within the downside economic scenario). The initial impact on Common Equity Tier 1 capital will, however, be negligible due to the existence of transitional arrangements to defer recognition of the higher provisions for capital purposes, recognising them over a period of five years. The estimated impact is based on a number of assumptions and judgements which may be revised during the course of 2018/19 as the underlying models continue to be validated and refined.

As permitted by the new standard, comparative figures will not be restated in the Annual Report and Accounts for the year ended 31 March 2019.

Hedge accounting
Under IFRS 9, hedge accounting is more closely linked to risk management. However, macro hedging has been carved out as a separate IASB project which has not yet concluded. The Group has made the accounting policy choice, permitted by IFRS 9, to continue applying IAS 39 for all hedge relationships until such time as the new macro hedging rules are finalised.

- IFRS 15 'Revenue from Contracts with Customers'
  This standard is effective for reporting periods beginning on or after 1 January 2018. This standard specifies how and when an entity should recognise revenue, providing a simple, principles based five-step model to be applied to all contracts with customers. The standard also prescribes further disclosure requirements in this area. Given the nature of the Group's activities it is not currently expected that IFRS 15 will have a significant impact for the Group.
- IFRS 16 'Leases'
  This standard will be effective for accounting periods beginning on or after 1 January 2019. IFRS 16 will replace the existing requirements in IAS 17 'Leases'. This standard provides a single lessee accounting model requiring lessees to recognise a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Exemptions are available for short term leases and leases of low value assets. The Group is currently assessing the impact of this standard.

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

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

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 provisions for impairment.

Securitisation transactions
The Group has entered into securitisation transactions in which it sells mortgages to structured entities. 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 below.

The equity of the structured entities 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 IFRS 10, the structured entities are included as subsidiaries in the consolidated financial statements.

The Society has entered into securitisation transactions in which it sold residential mortgages to structured entities. In accordance with IAS 39, the Society continues to recognise the securitised assets as loans and advances to customers and consequently also shows a deemed loan liability to the structured entities. The deemed loans are included within amounts due to other customers.

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 37.

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 method.

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 future cash flows or receipts through the expected life of the instrument, or where appropriate, a shorter period, to its carrying amount. 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 judgement 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 reviewed 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 non-derivative financial assets are accounted for at settlement date.

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 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 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. 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 future cash flow or forecast transaction is ultimately recognised 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, the host instrument 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

1. Accounting policies (continued)

• 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 or losses 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 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 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 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 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 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 is reported as a deduction from the carrying value of the investment and recognised in the Income Statement.

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.

Financial liabilities are subsequently measured at amortised cost using the effective interest 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. Designations of financial assets and financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties 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 31 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 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.

A collective provision is made against a group of loans and advances where there is objective evidence that credit losses have been incurred but not identified at the reporting date. The collective impairment calculation takes into account a number of factors, including forbearance measures applied to the loans, such as term extensions.

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 investment securities

At each year end date the Group assesses whether or not there is objective evidence that individual investment securities 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, 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 an investment security 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.

Impairment losses on investments in subsidiary undertakings

The Society assesses, at each year end date, whether there is any indication that its investments in subsidiary companies are impaired. If any indication of impairment exists, the Society compares the relevant asset's recoverable amount with its carrying value and, if an impairment loss has arisen, recognises it in the Income Statement immediately.

The recoverable amount of the investment is calculated with reference to the present value of the subsidiary's estimated future cash flows, primarily those arising from the continued trading of the subsidiary. This approach is based on the assumption that the Society, by virtue of control, is able to extract the subsidiary's cash flows in the form of loan repayment and/or dividends. In line with IAS 39, the discount rate used to arrive at the present value of future cash flows is the intergroup interest charge rate representing the EIR of the investment asset being assessed.

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 IFRS 13 'Fair Value Measurement' and Amendments to IFRS 7 'Financial Instruments: Disclosures'.

Level 1: For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, FTSE, NYSE) and broker quotes from Bloomberg and Reuters.

1. Accounting policies (continued)

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.

Level 2: For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, 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.

Level 3: Fair value is determined using valuation techniques where significant inputs are not based on observable market data.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

g) Sale and repurchase agreements
Investment and other securities may be lent or sold subject to a commitment to repurchase them. Where substantially all of the risks and rewards of ownership remain with the Group, the securities are retained on the Statement of Financial Position. The counterparty liability is recognised separately in the Statement of Financial Position as appropriate. The difference between the sale and repurchase price is accrued over the life of the agreements.

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.

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

Property, plant and equipment
Land and buildings comprise mainly branches and offices. All property, except specialised administration buildings, is stated at valuation less depreciation. Specialised administration buildings and plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All gains on the revaluation of property are recognised in the revaluation reserve when they arise.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method (unless otherwise stated) to allocate their cost less their residual values over their estimated useful lives, as follows:

Freehold branches and non-specialised buildings	Up to 50 years
Specialised administration buildings	Up to 25 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

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.

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 maturities of 90 days or less.

Taxation

Tax on the profit/loss for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income within the Statement of Comprehensive Income.

Current tax is the expected tax payable/receivable on the taxable income/expense for the year, using the tax rate which applies to the accounting period ending at the date of the Statement of Financial Position, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is determined using tax rates (and laws) that have been substantively enacted by the year end date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Group, is a contingent liability. A contingent liability is disclosed but not recognised in the Statement of Financial Position.

Employee benefits

The Group provides both a defined benefit scheme (closed to new employees from 2002/3 and accruals from 2009/10) and a defined contribution scheme on behalf of staff and Directors. The defined benefit scheme is funded by contributions from the Society at rates assessed by independent actuaries. These contributions are invested separately from the Group's assets. The Scheme assets are measured at market value at each year end date and the liabilities are measured using the projected unit valuation method, by qualified actuaries, discounted using a corporate bond rate. The resulting pension scheme surplus or deficit is recognised in the Statement of Financial Position.

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

Net interest, comprising interest income on plan assets less interest costs on scheme liabilities, and other expenses relating to the defined benefit pension scheme are recognised in the Income Statement. Actuarial gains or losses, that are gains or losses arising from differences between previous actuarial assumptions and actual experience, are recognised in the Statement of Comprehensive Income.

For defined contribution plans, the contributions are recognised as employee benefit 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 judgements 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 judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Pensions

The Group operates a defined benefit pension scheme. Significant judgements (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 judgements, 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 judgement. Provisions are calculated using historic default and loss experience, but require judgement 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 1% equates to £0.3m of provision. Other sensitivities include the emergence period, where a variance of six months equates to £0.1m, and the loss given default rate, where a 10% variance equates to £0.3m of provision.

For commercial mortgages the key sensitivities are interest rates, rental yields and exit yields, the rental yield impacting on annual returns and also the value of the commercial properties which provide security. A 0.5% increase in the current and projected future interest rates would increase commercial provision requirements by £8.0m before any compensating economic hedge arrangements in place, which would be expected to offset a substantial proportion of any such interest rate sensitivity. A 0.25% reduction in expected rental income would increase provision requirements by £4.0m. A 0.25% increase in expected exit yield requirements would increase provisions by £4.7m.

1. Accounting policies (continued)

Impairment losses on investments in subsidiary undertakings
The Society assesses, at each year end date, whether there is any indication that its investments in subsidiary companies are impaired. If any indication of impairment exists, the Society compares the relevant asset's recoverable amount with its carrying value and, if an impairment loss has arisen, recognises it in the Income Statement immediately.

The recoverable amount of the investment is calculated with reference to the present value of the subsidiary's estimated future cash flows, primarily those arising from the continued trading of the subsidiary. This approach is based on the assumption that the Society, by virtue of control, is able to extract the subsidiary's cash flows in the form of loan repayment and/or dividends. The most critical element is the discount rate used to arrive at the present value of future cash flows. A 0.25% increase in the discount rate would increase provisions by £5.7m.

Effective interest rate
The calculation of an effective interest rate requires the Group to make assumptions around the expected lives of mortgages. Management regularly reviews these assumptions and compares with actual results.

If the average lives of the mortgages were to increase by 5%, the carrying value of mortgages would increase by £2.6m with a corresponding increase in interest income.

Investment properties
The calculation of the fair value of investment properties involves house price assumptions which are regularly reviewed by management.

If house prices were to change by 5%, the carrying value of the investment properties would change by £6.6m with a corresponding change to income.

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 judgement 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.

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 judgement 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 rates between 17% and 19%, being the rates substantively enacted at the date of the Statement of Financial Position and expected to apply when the deferred tax assets are realised.

Securitisation transactions
In order to determine whether the Society controls a structured entity or not, the Society has to make judgements about risks and rewards and assess the ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. When assessing whether the Group has to consolidate a structured entity it evaluates a range of factors. 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 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
On financial assets not at fair value through profit or loss:				
Loans fully secured on residential property	**93.7**	99.2	**65.6**	64.9
Other loans				
Connected undertakings	**-**	-	**31.0**	42.2
Loans fully secured on land	**15.0**	21.0	**1.2**	1.2
Investment securities	**3.5**	5.1	**9.5**	12.2
Other liquid assets	**1.1**	1.0	**1.0**	0.9
On financial assets at fair value through profit or loss:				
Net expense on derivative financial instruments	**(16.4)**	(18.1)	**(15.0)**	(17.6)
Loans fully secured on land	**0.4**	0.7	**-**	-
Total interest income	**97.3**	108.9	**93.3**	103.8
Interest receivable includes:				
Income from fixed income securities	**1.6**	2.7	**1.6**	2.7

Included within interest receivable and similar income is interest accrued on impaired residential mortgage assets: Group £1.2m (2016/17: £1.2m) and Society £1.0m (2016/17: £1.0m) and interest accrued on impaired commercial mortgage assets: Group £5.5m (2016/17: £4.3m) and Society £nil (2016/17: £nil). For the purposes of this disclosure, impaired mortgage assets are those for which an individual impairment provision is held.

3. Interest expense and similar charges

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
On financial liabilities not at fair value through profit or loss:				
Shares held by individuals	**32.6**	41.7	**32.6**	41.7
Deposits from banks and other deposits	**5.5**	6.5	**5.5**	5.7
Interest on debt securities in issue	**3.5**	5.0	**-**	-
Deemed loans	**-**	-	**3.6**	6.5
On financial liabilities at fair value through profit or loss:				
Net income on derivative financial instruments	**(0.5)**	(0.4)	**(0.5)**	(0.4)
Interest on debt securities in issue	**0.7**	0.8	**-**	-
Total interest expense	**41.8**	53.6	**41.2**	53.5

4. Other operating income

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Other operating income includes:				
Rent receivable on investment property	**6.4**	6.5	**-**	-
Operating expenses on investment property	**(2.4)**	(2.3)	**-**	-
Pension fund net interest (note 30)	**(0.1)**	-	**(0.1)**	-
Dividends received from Group undertakings	**-**	-	**9.8**	37.5
Other	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Total other operating income	**3.8**	4.1	**9.6**	37.4

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. By their nature these sources of income are highly variable.

6. Administrative expenses

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Staff costs				
Wages and salaries	24.5	23.7	23.8	23.4
Social security costs	2.3	2.2	2.3	2.2
Other pension costs	1.6	1.5	1.6	1.5
Rental charges payable under operating leases	0.5	0.6	0.5	0.6
Other administrative expenses	14.6	16.4	11.8	12.7
	43.5	44.4	40.0	40.4
Other administrative expenses include:				
Remuneration of auditor (excluding VAT element)				
Audit of these financial statements	0.2	0.2	0.2	0.2
Audit of the subsidiary financial statements	0.1	0.1	-	-

Wages and salaries include £0.1m (2016/17: £0.1m) redundancy costs paid as part of the restructuring and rationalisation undertaken during the year.

Other assurance services provided by the external auditor comprise £5,100 (2016/17: £5,000) in respect of audit-related assurance services and £22,000 (2016/17: £10,000) in respect of other assurance services, in each case excluding VAT.

7. Employee numbers

	Group and Society 2018	Group and Society 2017
The average number of employees employed throughout the year was:		
Full time	595	620
Part time	158	138
	753	758
Building Society		
Central administration (Society and subsidiaries)	545	543
Branches	208	215
	753	758

All employees were employed within the United Kingdom.

8. Directors' emoluments

Total Directors' emoluments including expenses amounted to £1.719m (2016/17: £1.648m). Full details are given in the Directors' Remuneration Report on pages 38 to 44.

9. Taxation

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
UK corporation tax at 19% (2016/17: 20%)	**0.6**	0.9	**0.6**	0.9
Corporation tax - adjustment in respect of prior years	**-**	-	**-**	(0.9)
Total current tax	**0.6**	0.9	**0.6**	-
Deferred tax				
Current year	**0.4**	5.6	**(0.7)**	4.5
Adjustment in respect of prior periods	**(0.1)**	(0.5)	**-**	(1.5)
Tax on profit/(loss) on ordinary activities	**0.9**	6.0	**(0.1)**	3.0

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

The tax charge for the year differs to that calculated using the UK standard rate of tax, due to the utilisation of brought forward tax losses and the recognition of additional deferred tax assets based on amounts expected to be recoverable in the next five years. In the prior year, the amount estimated to be recoverable within five years reduced, following the outcome of the legal case which affected the Group's ability to vary the interest rate applicable to certain buy to let loans, resulting in a write down of deferred tax assets.

The tax charge is reconciled to the profit/(loss) before tax in the Income Statement as follows:

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Profit/(Loss) before tax	**8.8**	(19.8)	**5.7**	5.8
Profit/(Loss) before tax multiplied by the UK standard rate of tax of 19% (2016/17: 20%)	**1.7**	(4.0)	**1.1**	1.2
Effects of:				
Income not taxable and expenses not deductible for tax purposes	**0.6**	2.2	**1.2**	0.6
Changes to tax rate	**(0.1)**	0.1	**(0.1)**	0.2
Adjustment in respect of prior years	**(0.1)**	(0.5)	**-**	(2.4)
Transfer pricing adjustments	**-**	-	**(1.2)**	(1.7)
(Utilisation and recognition)/Write down of deferred tax assets	**(0.5)**	9.2	**(1.1)**	5.1
Revaluation	**(0.7)**	(1.0)	**-**	-
Tax charge	**0.9**	6.0	**(0.1)**	3.0

10. Cash and balances with the Bank of England

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Cash in hand	**3.2**	2.4	**3.2**	2.4
Cash ratio deposit with the Bank of England	**6.6**	7.2	**6.6**	7.2
Other deposits with the Bank of England	**314.9**	285.2	**314.9**	285.2
	324.7	294.8	**324.7**	294.8

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

11. Investment securities

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Investment securities: available for sale				
Listed	**311.9**	385.0	**311.9**	385.0
Investment securities: held to maturity				
Listed	**-**	-	**717.5**	810.5
Total investment securities	**311.9**	385.0	**1,029.4**	1,195.5

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/(losses) on the face of the Income Statement.

The movement in investment securities may be summarised as follows:

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
At beginning of year	**385.0**	410.1	**1,195.5**	1,300.0
Additions	**155.6**	229.9	**188.7**	229.9
Disposals (sale and redemption)	**(227.6)**	(255.5)	**(353.7)**	(334.9)
(Losses)/Gains from changes in fair value	**(1.1)**	0.5	**(1.1)**	0.5
At end of year	**311.9**	385.0	**1,029.4**	1,195.5

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.

12. Derivative financial instruments

A description of the derivative financial instruments used by the Group for hedging purposes is given in note 33.

(a) Fair values of derivative instruments

The fair values of derivatives held at 31 March are set out below. The other derivatives held for hedging are held for economic hedging purposes.

Group	**Notional principal amount 2018 £m**	**Fair values Assets 2018 £m**	**Fair values Liabilities 2018 £m**
Derivatives held for hedging			
Derivatives designated as fair value hedges	**1,623.2**	**15.7**	**(34.5)**
Other derivatives held for hedging	**1,169.7**	**3.8**	**(4.2)**
Total derivative assets/(liabilities) held for hedging	**2,792.9**	**19.5**	**(38.7)**

Group	Notional principal amount 2017 £m	Fair values Assets 2017 £m	Fair values Liabilities 2017 £m
Derivatives held for hedging			
Derivatives designated as fair value hedges	1,436.5	2.9	(53.7)
Derivatives designated as cash flow hedges	112.0	-	(0.3)
Other derivatives held for hedging	698.5	3.4	(15.0)
Total derivative assets/(liabilities) held for hedging	2,247.0	6.3	(69.0)

Society	**Notional principal amount 2018 £m**	**Fair values Assets 2018 £m**	**Fair values Liabilities 2018 £m**
Derivatives held for hedging			
Derivatives designated as fair value hedges	**1,606.3**	**15.7**	**(30.3)**
Other derivatives held for hedging	**798.5**	**3.8**	**(1.2)**
Total derivative assets/(liabilities) held for hedging	**2,404.8**	**19.5**	**(31.5)**

Society	Notional principal amount 2017 £m	Fair values Assets 2017 £m	Fair values Liabilities 2017 £m
Derivatives held for hedging			
Derivatives designated as fair value hedges	1,417.2	2.8	(48.5)
Other derivatives held for hedging	659.1	3.4	(11.2)
Total derivative assets/(liabilities) held for hedging	2,076.3	6.2	(59.7)

12. Derivative financial instruments (continued)

(b) Fair value gains/(losses) on financial instruments

The fair value gains/(losses) on derivatives and hedged items during the year are analysed below.

	Group 2018 £m	Group 2017 £m	**Society 2018 £m**	Society 2017 £m
Fair value hedges				
Derivatives designated as fair value hedges	**31.8**	8.2	**30.6**	7.9
Adjustments to hedged items in fair value hedge relationships	**(32.6)**	(9.4)	**(31.0)**	(9.1)
Fair value losses on hedge accounting	**(0.8)**	(1.2)	**(0.4)**	(1.2)
Other derivatives	**4.7**	1.3	**4.4**	0.6
Other financial instruments designated at fair value through profit or loss	**(1.4)**	(0.3)	**-**	-
Total fair value gains/(losses) on financial instruments	**2.5**	(0.2)	**4.0**	(0.6)

13. Loans and advances to customers

	Group 2018 £m	Group 2017 £m	**Society 2018 £m**	Society 2017 £m
Loans and receivables				
Loans fully secured on residential property	**4,403.9**	4,253.8	**2,960.1**	2,642.5
Other loans				
Loans fully secured on land	**428.3**	506.7	**13.8**	13.8
	4,832.2	4,760.5	**2,973.9**	2,656.3
At fair value through profit or loss				
Other loans				
Loans fully secured on land	**8.5**	17.8	**-**	-
	4,840.7	4,778.3	**2,973.9**	2,656.3
Fair value adjustment for hedged risk	**20.0**	53.9	**(8.7)**	16.2
Less: impairment provisions	**(55.3)**	(55.7)	**(8.4)**	(8.8)
	4,805.4	4,776.5	**2,956.8**	2,663.7

Included within loans and advances to customers are £488.0m (2016/17: £587.5m) of commercial lending balances of which £53.2m (2016/17: £73.4m) have been sold by the Group to bankruptcy remote structured entities. A further £1,172.1m (2016/17: £1,012.6m) of residential mortgage balances, included with loans and advances, have also been sold by the Group to structured entities. The structured entities have been funded by issuing mortgage backed securities (MBSs) of which £717.5m (2016/17: £810.5m) are held by the Group.

14. Allowance for losses on loans and advances

Group	Loans fully secured on residential property Individual £m	Loans fully secured on residential property Collective £m	Loans fully secured on land Individual £m	Loans fully secured on land Collective £m	Total Individual £m	Total Collective £m	Total £m
At 1 April 2017	8.1	8.2	25.5	13.9	33.6	22.1	**55.7**
Amounts written off	(3.0)	-	(12.8)	-	(15.8)	-	**(15.8)**
Charge/(Credit) for the year comprising:							
Provision for loan impairment	3.9	(3.3)	18.0	(2.5)	21.9	(5.8)	**16.1**
Change in carrying value of debt securities in issue	-	-	(7.5)	-	(7.5)	-	**(7.5)**
Adjustments to provisions resulting from recoveries	(0.7)	-	-	-	(0.7)	-	**(0.7)**
Charge/(Credit) for the year	3.2	(3.3)	10.5	(2.5)	13.7	(5.8)	**7.9**
Non-recourse finance on securitised advances	-	-	7.5	-	7.5	-	**7.5**
At 31 March 2018	**8.3**	**4.9**	**30.7**	**11.4**	**39.0**	**16.3**	**55.3**

Group	Loans fully secured on residential property Individual £m	Loans fully secured on residential property Collective £m	Loans fully secured on land Individual £m	Loans fully secured on land Collective £m	Total Individual £m	Total Collective £m	Total £m
At 1 April 2016	11.8	9.0	34.8	9.1	46.6	18.1	64.7
Amounts written off	(1.0)	-	(15.3)	-	(16.3)	-	(16.3)
(Credit)/Charge for the year comprising:							
Provision for loan impairment	(0.7)	(0.8)	6.0	4.8	5.3	4.0	9.3
Change in carrying value of debt securities in issue	-	-	0.3	-	0.3	-	0.3
Adjustments to provisions resulting from recoveries	(2.0)	-	-	-	(2.0)	-	(2.0)
(Credit)/Charge for the year	(2.7)	(0.8)	6.3	4.8	3.6	4.0	7.6
Non-recourse finance on securitised advances	-	-	(0.3)	-	(0.3)	-	(0.3)
At 31 March 2017	8.1	8.2	25.5	13.9	33.6	22.1	55.7

During the year there were impairment charges of £7.5m (2016/17: credits of £0.3m) against loans in structured entities, Sandwell Commercial Finance No.1 Plc: £0.2m credit (2016/17: £0.2m credit) and Sandwell Commercial Finance No. 2 Plc: £7.7m charge (2016/17: £0.1m credit). The gains or losses from these impairments are borne by the external loan note holders as they exceed the first loss exposure held by the Group. Impairment provisions at the end of the year include £8.5m (2016/17: £1.8m) against loans in structured entity, Sandwell Commercial Finance No.2 Plc. The carrying value of the external loan notes has been adjusted by an equivalent amount.

14. Allowance for losses on loans and advances (continued)

	Loans fully secured on residential property		Loans fully secured on land		Total		
Society	**Individual £m**	**Collective £m**	**Individual £m**	**Collective £m**	**Individual £m**	**Collective £m**	**Total £m**
At 1 April 2017	5.7	3.1	-	-	5.7	3.1	**8.8**
Amounts written off	(1.0)	-	-	-	(1.0)	-	**(1.0)**
Charge/(Credit) for the year comprising:							
Release of provision for loan impairment	1.1	(0.1)	-	-	1.1	(0.1)	**1.0**
Adjustments to provisions resulting from recoveries	(0.4)	-	-	-	(0.4)	-	**(0.4)**
Charge/(Credit) for the year	0.7	(0.1)	-	-	0.7	(0.1)	**0.6**
At 31 March 2018	**5.4**	**3.0**	**-**	**-**	**5.4**	**3.0**	**8.4**

	Loans fully secured on residential property		Loans fully secured on land		Total		
Society	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Total £m
At 1 April 2016	7.1	3.5	-	-	7.1	3.5	10.6
Amounts written off	(0.6)	-	-	-	(0.6)	-	(0.6)
Credit for the year comprising:							
Release of provision for loan impairment	-	(0.4)	-	-	-	(0.4)	(0.4)
Adjustments to provisions resulting from recoveries	(0.8)	-	-	-	(0.8)	-	(0.8)
Credit for the year	(0.8)	(0.4)	-	-	(0.8)	(0.4)	(1.2)
At 31 March 2017	5.7	3.1	-	-	5.7	3.1	8.8

15. Investments

Society	Shares in subsidiary undertakings 2018 £m	Shares in subsidiary undertakings 2017 £m	Loans to subsidiary undertakings 2018 £m	Loans to subsidiary undertakings 2017 £m	Total 2018 £m	Total 2017 £m
Cost						
At beginning of year	**0.6**	0.6	**1,604.5**	1,709.3	**1,605.1**	1,709.9
Decrease for the year	**-**	-	**(162.1)**	(104.8)	**(162.1)**	(104.8)
At end of year	**0.6**	0.6	**1,442.4**	1,604.5	**1,443.0**	1,605.1
Provisions						
At beginning of year	**-**	-	**78.2**	40.7	**78.2**	40.7
Charge for the year	**-**	-	**14.2**	37.5	**14.2**	37.5
At end of year	**-**	-	**92.4**	78.2	**92.4**	78.2
Net book value at end of year	**0.6**	0.6	**1,350.0**	1,526.3	**1,350.6**	1,526.9

Investments in subsidiary undertakings are financial fixed assets and are held at cost less impairment. All subsidiary loans are provided at open market rates.

Following continued contraction of the commercial mortgage book and additional losses within West Bromwich Commercial Limited, the Society has carried out a further review of the carrying value of its investment in West Bromwich Commercial Limited. The value of the Society's investment in West Bromwich Commercial Limited has been calculated by estimating the future cash flows that are expected to arise from the underlying net assets of the subsidiary. The cash flows predominantly consist of those arising from the continued trading of the subsidiary (e.g. interest from loans secured on commercial real estate). In line with IAS 39, the appropriate discount rate used is that applicable to the intra-group loan account. Following this review it has been necessary to write down the value of the investment by £14.2m (2016/17: £37.5m).

The Society holds directly (unless otherwise stated) the following interests in key subsidiary undertakings, all of which are registered in England:

Name	Major activities	Class of shares held	Interest of Society
West Bromwich Mortgage Company Limited	Residential mortgage lending	Ordinary £1 shares	100%
West Bromwich Commercial Limited	Commercial mortgage lending	Ordinary £1 shares	100%
CL Mortgages Limited (1)	Residential mortgage lending	Ordinary £1 shares	100%
West Bromwich Homes Limited	Investment in property for rental	Ordinary £1 shares	100%
Insignia Finance Limited	Holding company	Ordinary £500 shares	100%
White Label Lending Limited (2)	Second charge lending	Ordinary £1 shares	100%

(1) The 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.

The registered office of the subsidiary undertakings listed above is the Group's registered office as detailed in note 36.

15. Investments (continued)

Securitisation entities

The results of the following securitisation entities are consolidated into the results of the Group under the rules and guidance of IFRS 10:

Name	Country of incorporation	Principal activity
Sandwell Finance Holdings Limited	United Kingdom	Holding company
Sandwell Commercial Finance No. 1 Plc	United Kingdom	Securitisation entity
Sandwell Commercial Finance No. 2 Plc	United Kingdom	Securitisation entity
Hawthorn Asset Co Limited	United Kingdom	Securitisation entity
Hawthorn Finance Limited	Jersey	Securitisation entity
Kenrick No. 1 Holdings Limited (3)	United Kingdom	Holding company
Kenrick No. 1 Plc (4)	United Kingdom	Securitisation entity
Kenrick No. 2 Holdings Limited	United Kingdom	Holding company
Kenrick No. 2 Plc	United Kingdom	Securitisation entity
Kenrick No. 3 Holdings Limited (5)	United Kingdom	Holding company
Kenrick No. 3 Plc (5)	United Kingdom	Securitisation entity

(3) Kenrick No. 1 Holdings Limited was dissolved on 03 April 2018

(4) Kenrick No. 1 Plc is in voluntary liquidation

(5) Kenrick No. 3 Plc and Kenrick No. 3 Holdings Limited were incorporated on 6 October 2017

The registered office of Sandwell Finance Holdings Limited, Sandwell Commercial Finance No.1 Plc, Sandwell Commercial Finance No. 2 Plc and Hawthorn Asset Co Limited is Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

The registered office of Hawthorn Finance Limited is 26 New Street, St. Helier, Jersey, JE2 3RA.

The registered office of Kenrick No. 1 Plc is 40a Station Road, Upminster, Essex, RM14 2TR.

The registered office of Kenrick No. 2 Plc and Kenrick No. 2 Holdings Limited is 35 Great St. Helen's, London, EC3A 6AP.

The registered office of Kenrick No. 3 Plc and Kenrick No. 3 Holdings Limited is 11th Floor 200 Aldersgate Street, London, EC1A 4HD.

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.

16. Intangible assets

Group	Goodwill 2018 £m	Computer software 2018 £m	Total 2018 £m	Goodwill 2017 £m	Computer software 2017 £m	Total 2017 £m
Cost						
At beginning of year	0.6	27.1	27.7	0.6	19.3	19.9
Additions	-	6.3	6.3	-	7.8	7.8
At end of year	0.6	33.4	34.0	0.6	27.1	27.7
Aggregate amortisation						
At beginning of year	-	14.4	14.4	-	11.7	11.7
Charge for the year	-	4.3	4.3	-	2.7	2.7
At end of year	-	18.7	18.7	-	14.4	14.4
Net book value at end of year	0.6	14.7	15.3	0.6	12.7	13.3
Net book value at beginning of year	0.6	12.7	13.3	0.6	7.6	8.2

Society	Goodwill 2018 £m	Computer software 2018 £m	Total 2018 £m	Goodwill 2017 £m	Computer software 2017 £m	Total 2017 £m
Cost						
At beginning of year	-	27.1	27.1	-	19.3	19.3
Additions	-	6.3	6.3	-	7.8	7.8
At end of year	-	33.4	33.4	-	27.1	27.1
Aggregate amortisation						
At beginning of year	-	14.4	14.4	-	11.7	11.7
Charge for the year	-	4.3	4.3	-	2.7	2.7
At end of year	-	18.7	18.7	-	14.4	14.4
Net book value at end of year	-	14.7	14.7	-	12.7	12.7
Net book value at beginning of year	-	12.7	12.7	-	7.6	7.6

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.

The recoverable amount 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% (2016/17: 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% (2016/17: 12.5%), reflecting management's estimate of the required return.

17. Investment properties

	Group 2018 £m	Group 2017 £m
Valuation		
At beginning of year	128.9	123.7
Disposals	(0.5)	(0.2)
Revaluation gains	3.8	5.4
At end of year	132.2	128.9

The Group applies the fair value model to its investment property portfolio.

Independent specialist valuers, Connells Survey & Valuation Ltd (Connells) have undertaken a valuation review of the residential investment properties held by West Bromwich Homes Limited. The complete portfolio has been passed through an automated valuation model (AVM). Connells have valued a 10% sample of the portfolio using drive by methods. The valuations have been used, in combination with the AVM output, to arrive at a portfolio valuation of £132.2m at 31 March 2018. Connells have confirmed that the combination approach is a reasonable one to form a view in respect of the overall fair value of the portfolio.

This fair value measurement is categorised as a Level 3 fair value measurement, based on an assessment of the inputs to the valuation methodology.

If the land and buildings were carried at cost, the carrying amount would be £84.4m (2016/17: £84.7m).

The Group leases investment properties to non-commercial individuals for a contract period of up to 12 months. The future minimum lease receipts under non-cancellable operating leases that end within 12 months are £2.8m (2016/17: £2.7m). The Group has not recognised any contingent rent in the period (2016/17: £nil).

18. Property, plant and equipment

Group	Land and buildings: Freehold branches and non-specialised buildings £m	Land and buildings: Specialised administration buildings £m	Land and buildings: Held for sale £m	Land and buildings: Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	**Total £m**
Cost or valuation						
At 1 April 2017	5.4	20.8	-	1.0	22.8	**50.0**
Additions	-	0.4	-	-	0.6	**1.0**
At 31 March 2018	**5.4**	**21.2**	**-**	**1.0**	**23.4**	**51.0**
Accumulated depreciation						
At 1 April 2017	-	0.9	-	0.6	16.4	**17.9**
Charge for the year	0.1	0.8	-	-	2.0	**2.9**
At 31 March 2018	**0.1**	**1.7**	**-**	**0.6**	**18.4**	**20.8**
Net book value						
At 31 March 2018	**5.3**	**19.5**	**-**	**0.4**	**5.0**	**30.2**

Group	Land and buildings: Freehold branches and non-specialised buildings £m	Land and buildings: Specialised administration buildings £m	Land and buildings: Held for sale £m	Land and buildings: Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation						
At 1 April 2016	25.7	-	0.5	0.7	22.1	49.0
Additions	-	0.1	-	0.3	0.8	1.2
Transfers	(20.7)	20.7	-	-	-	-
Revaluation	0.4	-	-	-	-	0.4
Disposals	-	-	(0.5)	-	(0.1)	(0.6)
At 31 March 2017	5.4	20.8	-	1.0	22.8	50.0
Accumulated depreciation						
At 1 April 2016	0.3	-	-	0.6	14.2	15.1
Transfers	(0.1)	0.1	-	-	-	-
Revaluation	(0.2)	-	-	-	-	(0.2)
Charge for the year	-	0.8	-	-	2.2	3.0
At 31 March 2017	-	0.9	-	0.6	16.4	17.9
Net book value						
At 31 March 2017	5.4	19.9	-	0.4	6.4	32.1

Society	**Land and buildings** Freehold branches and non-specialised buildings £m	Specialised administration buildings £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	**Total £m**
Cost or valuation						
At 1 April 2017	5.4	20.8	-	1.0	22.6	**49.8**
Additions	-	0.4	-	-	0.6	**1.0**
At 31 March 2018	**5.4**	**21.2**	**-**	**1.0**	**23.2**	**50.8**
Accumulated depreciation						
At 1 April 2017	-	0.9	-	0.6	16.2	**17.7**
Charge for the year	0.1	0.8	-	-	2.0	**2.9**
At 31 March 2018	**0.1**	**1.7**	**-**	**0.6**	**18.2**	**20.6**
Net book value						
At 31 March 2018	**5.3**	**19.5**	**-**	**0.4**	**5.0**	**30.2**

Society	Land and buildings Freehold branches and non-specialised buildings £m	Specialised administration buildings £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation						
At 1 April 2016	25.7	-	0.5	0.7	21.9	48.8
Additions	-	0.1	-	0.3	0.8	1.2
Transfers	(20.7)	20.7	-	-	-	-
Revaluation	0.4	-	-	-	-	0.4
Disposals	-	-	(0.5)	-	(0.1)	(0.6)
At 31 March 2017	5.4	20.8	-	1.0	22.6	49.8
Accumulated depreciation						
At 1 April 2016	0.3	-	-	0.6	14.0	14.9
Transfers	(0.1)	0.1	-	-	-	-
Revaluation	(0.2)	-	-	-	-	(0.2)
Charge for the year	-	0.8	-	-	2.2	3.0
At 31 March 2017	-	0.9	-	0.6	16.2	17.7
Net book value						
At 31 March 2017	5.4	19.9	-	0.4	6.4	32.1

The net book value of land and buildings occupied for the Society's own use is £25.2m (2016/17: £25.7m).

The Group's freehold branches and non-specialised buildings were last revalued at 31 March 2017 by Colliers International, a firm of independent chartered surveyors. The valuations were undertaken in accordance with the Valuation Standards issued by the Royal Institution of Chartered Surveyors in the United Kingdom. These valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve.

If land and buildings were carried at historical cost, the carrying amount would be £20.8m (2016/17: £21.2m).

As part of the ongoing funding agreement for the West Bromwich Building Society Staff Retirement Scheme (the SRS), the Trustees of the SRS have been granted a charge over the Society's Head Office, a specialised administration building. The charge may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS.

19. Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 17% to 19% (2016/17: 17% to 19%). The movement on the deferred tax account is as follows:

	Group 2018 £m	Group 2017 £m	**Society 2018 £m**	Society 2017 £m
At beginning of year	**11.4**	15.7	**10.7**	12.9
Current year Income Statement (charge)/credit	**(0.4)**	(5.6)	**0.7**	(4.5)
Amount recognised directly in other comprehensive income	**(0.3)**	1.0	**(0.1)**	0.9
Adjustments in respect of prior years	**0.1**	0.3	**-**	1.4
At end of year	**10.8**	11.4	**11.3**	10.7

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

	Group 2018 £m	Group 2017 £m	**Society 2018 £m**	Society 2017 £m
Deferred tax assets				
Accelerated tax depreciation	**5.2**	5.9	**5.2**	5.9
Carried forward tax losses	**8.7**	8.9	**5.5**	4.4
Pensions and other post retirement benefits	**0.9**	1.1	**0.9**	1.1
Other temporary differences	**0.5**	0.5	**0.5**	0.3
	15.3	16.4	**12.1**	11.7
Deferred tax liabilities				
Property valuations	**(4.2)**	(4.2)	**(0.6)**	(0.6)
Other temporary differences	**(0.3)**	(0.8)	**(0.2)**	(0.4)
	(4.5)	(5.0)	**(0.8)**	(1.0)

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

	Group 2018 £m	Group 2017 £m	**Society 2018 £m**	Society 2017 £m
Accelerated tax depreciation	**(0.6)**	0.6	**(0.6)**	0.6
Other provisions	**0.5**	-	**0.2**	(0.5)
Carried forward tax losses	**(0.2)**	(5.8)	**1.1**	(3.1)
Property valuations	**-**	0.1	**-**	-
	(0.3)	(5.1)	**0.7**	(3.0)

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable over the foreseeable future. The deferred tax asset balances attributable to carried forward losses are expected to be substantially recovered against future taxable profits (as projected in the latest Strategic Plan) within five years. The assumptions surrounding future expected credit losses and increases in the Bank Rate of interest represent the most subjective areas of judgement in management's projections of future taxable profits. The deferred tax assets have not been discounted.

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

The UK corporation tax rate reduced to 19%, effective from 1 April 2017, and will reduce to 17% with effect from 1 April 2020. Deferred tax assets and liabilities have been recognised at rates between 17% and 19% (2016/17: between 17% and 19%), being the rates substantively enacted at the Statement of Financial Position date and expected to apply when the deferred tax balances are realised.

20. Trade and other receivables

	Group 2018 £m	Group 2017 £m	**Society 2018 £m**	Society 2017 £m
Prepayments and accrued income	**6.2**	3.2	**6.2**	3.2
Other	**0.2**	0.3	**0.2**	0.1
	6.4	3.5	**6.4**	3.3

21. Shares

Group and Society	2018 £m	2017 £m
Held by individuals	**4,050.0**	4,423.2
Other shares	**1.1**	1.1
Fair value adjustment for hedged risk	**0.3**	3.0
	4,051.4	4,427.3

22. Amounts due to other customers

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Deemed loans	**-**	-	**492.4**	256.7
Other customers	**133.1**	132.7	**133.4**	133.6
	133.1	132.7	**625.8**	390.3

23. Debt securities in issue

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Non-recourse finance on securitised advances	**493.3**	263.2	**-**	-

The non-recourse finance comprises mortgage backed floating rate notes (the Notes) secured over portfolios of mortgage loans secured by first charges over residential and commercial properties in the United Kingdom (see note 13). Prior to redemption of the Notes on the final interest payment dates, 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 and liabilities held at fair value through profit or loss.

For the purposes of the Statement of Cash Flows, debt securities in issue are classified as liabilities arising from financing activities, and no other items within the Statement of Financial Position are classified as such. The following table analyses movements in debt securities in issue.

	Group 2018 £m	Group 2017 £m
At beginning of year	**263.2**	368.6
Financing cash flows		
Proceeds from issue of debt securities	**350.0**	-
Costs on issue of debt securities	**(1.5)**	-
Repayments of debt securities in issue	**(113.4)**	(107.0)
Non-cash flows:		
Changes in fair value	**(6.7)**	0.6
Changes in accrued interest*	**1.3**	0.3
Amortisation*	**0.4**	0.7
At end of year	**493.3**	263.2

*Included within 'Repayment of mortgage backed loan notes' in the prior year Group Statement of Cash Flows

24. Trade and other payables

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Accruals	**8.4**	7.2	**7.9**	6.7
Other creditors	**3.6**	3.0	**3.0**	2.7
	12.0	10.2	**10.9**	9.4

25. Provisions for liabilities

Group	Buy to let 2018 £m	FSCS 2018 £m	Onerous contracts 2018 £m	Other 2018 £m	Total 2018 £m
At beginning of year	-	0.8	-	2.3	3.1
Utilised in the year	-	(0.9)	-	(1.0)	(1.9)
Charge for the year	-	0.3	-	0.6	0.9
At end of year	-	0.2	-	1.9	2.1

Group	Buy to let 2017 £m	FSCS 2017 £m	Onerous contracts 2017 £m	Other 2017 £m	Total 2017 £m
At beginning of year	-	1.4	0.1	1.2	2.7
Utilised in the year	(27.5)	(1.4)	(0.1)	(0.5)	(29.5)
Charge for the year	27.5	0.8	-	1.6	29.9
At end of year	-	0.8	-	2.3	3.1

Society	FSCS 2018 £m	Onerous contracts 2018 £m	Other 2018 £m	Total 2018 £m
At beginning of year	0.8	-	2.2	3.0
Utilised in the year	(0.9)	-	(1.0)	(1.9)
Charge for the year	0.3	-	0.6	0.9
At end of year	0.2	-	1.8	2.0

Society	FSCS 2017 £m	Onerous contracts 2017 £m	Other 2017 £m	Total 2017 £m
At beginning of year	1.4	0.1	1.1	2.6
Utilised in the year	(1.4)	(0.1)	(0.4)	(1.9)
Charge for the year	0.8	-	1.5	2.3
At end of year	0.8	-	2.2	3.0

Buy to let provision
In December 2013, West Bromwich Mortgage Company Limited (the Company) chose to vary the interest rate margin charged for certain multi-property landlords in line with the terms and conditions of their buy to let mortgages. Certain impacted parties initiated legal proceedings against the Company to challenge this increase. Following a successful defence of this challenge in the High Court a final judgement was made in the Court of Appeal in June 2016 which ruled against the Company. During 2016/17, the interest rate variation applied since December 2013 was refunded in full to all buy to let borrowers affected.

Financial Services Compensation Scheme (FSCS)
In common with all regulated UK deposit takers, the Society pays levies to the FSCS to enable the FSCS to meet claims against it.

The provision at 31 March 2018 was calculated based on the Society's share of protected deposits and the FSCS estimate of total management expenses for the scheme year, which reduced significantly following the sale of certain Bradford & Bingley assets, enabling a substantial repayment of the loan from HM Treasury to the FSCS.

Other provisions
Other provisions primarily relate to Payment Protection Insurance (PPI) redress and represent the amounts expected to be settled based on the Financial Conduct Authority (FCA) introduced deadline of 29 August 2019. Following the Supreme Court's decision in the case of Plevin v Paragon Personal Finance Limited, the FCA sought to define circumstances whereby the levels of commission earned on PPI sales gave rise to a potentially 'unfair relationship'. Other provisions include the Society's expected obligations under the FCA rules and guidelines.

26. Subscribed capital

Group and Society	2018 £m	2017 £m
Permanent interest bearing shares	**75.0**	75.0

In a winding up or dissolution of the Society the claims of the holders of permanent interest bearing shares (PIBS) would rank behind all other creditors of the Society, with the exception of the claims of holders of profit participating deferred shares (PPDS), 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.

Future interest payments are at the discretion of the Society.

27. Profit participating deferred shares

Group and Society	2018 £m	2017 £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	**(11.1)**	(4.6)
Share of profit/(loss) for the financial year	**2.0**	(6.5)
	(9.1)	(11.1)
Net value at end of year	**175.0**	173.0

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 (calculated prior to payment of the PPDS dividend). No such distribution may be made if the PPDS cumulative reserves are in deficit.

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

Financial assets and liabilities are designated 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 designated at fair value through profit or loss, and the net gains or losses on these instruments:

	Group 2018 £m	Group 2017 £m
Financial assets at fair value through profit or loss		
Loans fully secured on land		
Carrying value at 31 March	**8.4**	18.3
Net losses in the year	**(0.6)**	(0.1)
Financial liabilities at fair value through profit or loss		
Non-recourse finance on securitised advances		
Carrying value at 31 March	**12.5**	17.4
Net losses in the year	**(0.8)**	(0.2)
Derivative financial instruments		
Carrying value at 31 March	**(1.3)**	(2.7)
Net gains in the year	**1.4**	0.3

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

Group	Before tax amount 2018 £m	Taxation 2018 £m	Net of tax amount 2018 £m
Available for sale financial assets	**(1.1)**	**0.2**	**(0.9)**
Actuarial losses on defined benefit obligations	**(1.6)**	**0.4**	**(1.2)**
Cash flow hedges	**0.8**	**(0.1)**	**0.7**
Other comprehensive income	**(1.9)**	**0.5**	**(1.4)**

Group	Before tax amount 2017 £m	Taxation 2017 £m	Net of tax amount 2017 £m
Actuarial losses on defined benefit obligations	(10.4)	1.9	(8.5)
Revaluation reserve	0.6	(0.2)	0.4
Amortisation of original discount on subscribed capital	0.1	-	0.1
Cash flow hedges	(0.5)	0.1	(0.4)
Other comprehensive income	(10.2)	1.8	(8.4)

Society	Before tax amount 2018 £m	Taxation 2018 £m	Net of tax amount 2018 £m
Available for sale financial assets	**(1.1)**	**0.2**	**(0.9)**
Actuarial losses on defined benefit obligations	**(1.6)**	**0.4**	**(1.2)**
Other comprehensive income	**(2.7)**	**0.6**	**(2.1)**

Society	Before tax amount 2017 £m	Taxation 2017 £m	Net of tax amount 2017 £m
Actuarial losses on defined benefit obligations	(10.4)	1.9	(8.5)
Revaluation reserve	0.6	(0.2)	0.4
Amortisation of original discount on subscribed capital	0.1	-	0.1
Other comprehensive income	(9.7)	1.7	(8.0)

30. Retirement benefit obligations

Group and Society	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Defined benefit pension scheme obligation/(asset)	**5.1**	6.5	(0.8)	7.5	1.4

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 2016 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.

As part of the ongoing funding agreement for the SRS, the Trustees of the SRS have been granted a charge over the Society's Head Office, which may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS. In addition to this, the estimated amount of total employer deficit contributions expected to be paid to the Scheme during 2018/19, based on the required amounts under the schedule of contributions is £3.3m.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

IAS 19 allows an employer to recognise a surplus as an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme, even if the refunds may only be available at some distant time in the future, such as after the last benefit has been paid.

The weighted average duration of the expected benefit payments from the Scheme is around 20 years.

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

Group and Society	2018	2017	2016	2015	2014
Pension increases in payment (RPI capped at 5%)	**3.0%**	3.1%	2.8%	2.8%	3.3%
Pension increases in payment (CPI capped at 2.5%)	**1.7%**	1.7%	1.6%	1.6%	2.0%
Discount rate	**2.8%**	2.8%	3.7%	3.5%	4.6%
Life expectancy of male aged 65 at year end date	**22.9**	23.2	23.0	22.9	22.9
Life expectancy of female aged 65 at year end date	**23.8**	24.2	24.4	24.3	24.2
Life expectancy of male aged 65 at year end date plus 20 years	**24.3**	25.0	24.4	24.3	24.2
Life expectancy of female aged 65 at year end date plus 20 years	**25.3**	26.1	25.9	25.8	25.7

The sensitivity of the defined benefit obligation to changes in the significant actuarial assumptions is shown in the table below:

Group and Society	2018 £m	2017 £m
Discount rate		
Effect on defined benefit obligation of a 1% increase	**(18.5)**	(20.3)
Inflation		
Effect on defined benefit obligation of a 1% increase	**15.0**	16.8
Life expectancy		
Effect on defined benefit obligation of a 1 year increase	**3.6**	3.4

30. Retirement benefit obligations (continued)

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

Group and Society	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Present value of funded obligations	**108.5**	113.2	93.6	97.8	85.1
Present value of unfunded obligations	**0.7**	0.8	0.6	1.0	0.9
	109.2	114.0	94.2	98.8	86.0
Fair value of scheme assets	**(104.1)**	(107.5)	(95.0)	(91.3)	(84.6)
Net liability/(asset) in the Statement of Financial Position	**5.1**	6.5	(0.8)	7.5	1.4

The amounts recognised in the Income Statement are as follows:

Group and Society	2018 £m	2017 £m	2016 £m
Interest cost	**3.1**	3.4	3.4
Interest receivable on plan assets	**(3.0)**	(3.4)	(3.3)
Running costs	**0.3**	0.3	0.2
Total pension fund cost	**0.4**	0.3	0.3

Running costs, other than those associated with management of scheme assets, are shown in administrative expenses whilst interest cost and interest receivable on plan assets are disclosed as other operating income.

Change in benefit obligations

Group and Society	2018 £m	2017 £m	2016 £m
Benefit obligations at beginning of year	**114.0**	94.2	98.8
Interest cost	**3.1**	3.4	3.4
Actuarial (gains)/losses	**(2.5)**	21.0	(5.2)
Running costs (release of reserve)	**(0.1)**	(0.1)	(0.1)
Benefits paid	**(5.3)**	(4.5)	(2.7)
Benefit obligations at end of year	**109.2**	114.0	94.2

Change in scheme assets

Group and Society	2018 £m	2017 £m	2016 £m
Fair value of scheme assets at beginning of year	**107.5**	95.0	91.3
Interest receivable on plan assets	**3.0**	3.4	3.3
Actuarial (losses)/gains	**(4.1)**	10.6	(6.1)
Contribution by employer	**3.4**	3.4	9.5
Running costs	**(0.4)**	(0.4)	(0.3)
Benefits paid	**(5.3)**	(4.5)	(2.7)
Fair value of scheme assets at end of year	**104.1**	107.5	95.0

The amount recognised outside profit and loss in the Statement of Comprehensive Income for 2017/18 is an actuarial loss of £1.6m (2016/17: £10.4m). The cumulative amount recognised outside profit and loss at 31 March 2018 is an actuarial loss of £55.2m.

History of experience gains and losses

Group and Society	**2018**	2017	2016	2015	2014
Experience (losses)/gains on scheme assets:					
Amount (£m)	**(4.1)**	10.6	(6.1)	1.5	(9.9)
Percentage of scheme assets	**(4%)**	10%	(6%)	2%	(12%)
Experience losses/(gains) on scheme liabilities:					
Amount (£m)	**0.7**	(0.9)	(1.7)	(1.3)	(0.4)
Percentage of scheme liabilities	**1%**	(1%)	(2%)	(1%)	(0%)

Scheme assets

Provisional asset information at bid value was supplied by the investment managers. The value of the invested assets at 31 March 2018 was £104.1m, analysed as follows:

Group and Society	**2018 £m**	2017 £m	2016 £m
Diversified growth fund	**54.4**	54.2	53.5
Liability driven investment	**28.3**	28.6	23.6
Insurance asset	**18.5**	19.4	17.2
Cash and other assets	**2.9**	5.3	0.7
	104.1	107.5	95.0

As part of its asset and liability matching investment strategy, designed to mitigate inflation and interest rate risk exposure, the Scheme has invested in four pooled liability driven investment funds. In addition, an insurance policy has been purchased to provide income which provides a specific match against the liabilities arising from a large proportion of the Scheme's current pensioners. The Scheme is targeted to be 80-90% hedged on movements in interest rates and 90-100% hedged on movements in inflation rates based on the Technical Provisions funding target.

With a view to reducing the investment risk within the Scheme's asset portfolio, a large proportion of the investments are now held in Diversified Growth Funds (DGFs), rather than direct equity funds. Although DGFs do themselves include equity investments this is part of a more diversified strategy which is expected to reduce overall investment volatility whilst still maintaining relatively strong returns.

Stakeholder scheme

The total cost for the year of the stakeholder plan to the Group and Society was £1.1m (2016/17: £1.0m).

For the period through to 31 July 2009 staff could contribute between 2% and 9% with the Society contributing on a sliding scale between 2% and 7%. From 1 August 2009 to 31 March 2018 staff were able to contribute between 2% and 10% with the Society providing matched funding. From 1 April 2018 staff within the stakeholder scheme are required to contribute between 3% and 10%, with the Society providing matched funding plus 0.6%.

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 and equity risk). These risks are described in notes 32 to 34.

The use of derivative financial instruments for risk management purposes is described in note 33.

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 2018

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	324.7	-	-	**324.7**
Loans and advances to credit institutions	120.6	-	-	**120.6**
Investment securities	-	311.9	-	**311.9**
Derivative financial instruments	-	-	19.5	**19.5**
Loans and advances to customers	4,797.0	-	8.4	**4,805.4**
Total financial assets	**5,242.3**	**311.9**	**27.9**	**5,582.1**
Non-financial assets				**199.4**
Total assets				**5,781.5**

	Other financial liabilities £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,051.4	-	**4,051.4**
Amounts due to credit institutions	571.3	-	**571.3**
Amounts due to other customers	133.1	-	**133.1**
Derivative financial instruments	-	38.7	**38.7**
Debt securities in issue	480.8	12.5	**493.3**
Total financial liabilities	**5,236.6**	**51.2**	**5,287.8**
Non-financial liabilities			**23.7**
Total liabilities			**5,311.5**

At 31 March 2017

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	294.8	-	-	294.8
Loans and advances to credit institutions	174.0	-	-	174.0
Investment securities	-	385.0	-	385.0
Derivative financial instruments	-	-	6.3	6.3
Loans and advances to customers	4,758.2	-	18.3	4,776.5
Total financial assets	5,227.0	385.0	24.6	5,636.6
Non-financial assets				194.2
Total assets				5,830.8

	Other financial liabilities £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,427.3	-	4,427.3
Amounts due to credit institutions	450.3	-	450.3
Amounts due to other customers	132.7	-	132.7
Derivative financial instruments	-	69.0	69.0
Debt securities in issue	245.8	17.4	263.2
Total financial liabilities	5,256.1	86.4	5,342.5
Non-financial liabilities			24.8
Total liabilities			5,367.3

31. Financial instruments (continued)

Classification of financial assets and financial liabilities (continued)

At 31 March 2018

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	324.7	-	-	**324.7**
Loans and advances to credit institutions	49.2	-	-	**49.2**
Investment securities	717.5	311.9	-	**1,029.4**
Derivative financial instruments	-	-	19.5	**19.5**
Loans and advances to customers	2,956.8	-	-	**2,956.8**
Investments	1,350.6	-	-	**1,350.6**
Total financial assets	**5,398.8**	**311.9**	**19.5**	**5,730.2**
Non-financial assets				**63.4**
Total assets				**5,793.6**

	Other financial liabilities £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,051.4	-	**4,051.4**
Amounts due to credit institutions	571.3	-	**571.3**
Amounts due to other customers	625.8	-	**625.8**
Derivative financial instruments	-	31.5	**31.5**
Total financial liabilities	**5,248.5**	**31.5**	**5,280.0**
Non-financial liabilities			**18.8**
Total liabilities			**5,298.8**

At 31 March 2017

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	294.8	-	-	294.8
Loans and advances to credit institutions	91.7	-	-	91.7
Investment securities	810.5	385.0	-	1,195.5
Derivative financial instruments	-	-	6.2	6.2
Loans and advances to customers	2,663.7	-	-	2,663.7
Investments	1,526.9	-	-	1,526.9
Total financial assets	5,387.6	385.0	6.2	5,778.8
Non-financial assets				59.8
Total assets				5,838.6

	Other financial liabilities £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,427.3	-	4,427.3
Amounts due to credit institutions	450.3	-	450.3
Amounts due to other customers	390.3	-	390.3
Derivative financial instruments	-	59.7	59.7
Total financial liabilities	5,267.9	59.7	5,327.6
Non-financial liabilities			19.9
Total liabilities			5,347.5

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 notes 1 and 28, these are economically hedged where it is not practical to apply hedge accounting.

31. Financial instruments (continued)

Fair values of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group determines fair values by the following three tier valuation hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques where all inputs are taken from observable market data, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques where significant inputs are not based on observable market data.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, equity index prices and expected price volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Observable prices are those that have been seen either from counterparties or from market pricing sources including Bloomberg. The use of these depends upon the liquidity of the relevant market.

Financial assets and financial liabilities held at amortised cost

The tables below show the fair values of the Group's and Society's financial assets and liabilities held at amortised cost in the Statements of Financial Position, analysed according to the fair value hierarchy described above.

At 31 March 2018

Group	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	**324.7**	324.7	-	-	**324.7**
Loans and advances to credit institutions	**120.6**	-	120.6	-	**120.6**
Loans and advances to customers	**4,797.0**	-	-	4,781.7	**4,781.7**
	5,242.3	**324.7**	**120.6**	**4,781.7**	**5,227.0**
Financial liabilities					
Shares	**4,051.4**	-	-	4,033.5	**4,033.5**
Amounts due to credit institutions	**571.3**	-	571.3	-	**571.3**
Amounts due to other customers	**133.1**	-	133.1	-	**133.1**
Debt securities in issue	**480.8**	471.3	7.9	-	**479.2**
	5,236.6	**471.3**	**712.3**	**4,033.5**	**5,217.1**

At 31 March 2017

Group	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	294.8	294.8	-	-	294.8
Loans and advances to credit institutions	174.0	-	174.0	-	174.0
Loans and advances to customers	4,758.2	-	-	4,790.0	4,790.0
	5,227.0	294.8	174.0	4,790.0	5,258.8
Financial liabilities					
Shares	4,427.3	-	-	4,416.6	4,416.6
Amounts due to credit institutions	450.3	-	450.3	-	450.3
Amounts due to other customers	132.7	-	132.7	-	132.7
Debt securities in issue	245.8	230.0	8.2	-	238.2
	5,256.1	230.0	591.2	4,416.6	5,237.8

At 31 March 2018

Society	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	**324.7**	324.7	-	-	**324.7**
Loans and advances to credit institutions	**49.2**	-	49.2	-	**49.2**
Investment securities	**717.5**	1.9	714.8	-	**716.7**
Loans and advances to customers	**2,956.8**	-	-	3,014.3	**3,014.3**
	4,048.2	**326.6**	**764.0**	**3,014.3**	**4,104.9**
Financial liabilities					
Shares	**4,051.4**	-	-	4,033.5	**4,033.5**
Amounts due to credit institutions	**571.3**	-	571.3	-	**571.3**
Amounts due to other customers	**625.8**	-	625.8	-	**625.8**
	5,248.5	**-**	**1,197.1**	**4,033.5**	**5,230.6**

At 31 March 2017

Society	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	294.8	294.8	-	-	294.8
Loans and advances to credit institutions	91.7	-	91.7	-	91.7
Investment securities	810.5	56.2	753.3	-	809.5
Loans and advances to customers	2,663.7	-	-	2,711.1	2,711.1
	3,860.7	351.0	845.0	2,711.1	3,907.1
Financial liabilities					
Shares	4,427.3	-	-	4,416.6	4,416.6
Amounts due to credit institutions	450.3	-	450.3	-	450.3
Amounts due to other customers	390.3	-	390.3	-	390.3
	5,267.9	-	840.6	4,416.6	5,257.2

31. Financial instruments (continued)

a) Loans and advances to customers
The fair value of loans and advances to customers has been determined taking into account factors such as impairment and interest rates. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2018.

b) Shares and borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2018.

c) Debt securities in issue
The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Financial assets and financial liabilities held at fair value through profit or loss

The tables below show the fair values of the Group's and Society's financial assets and liabilities held at fair value in the Statements of Financial Position, analysed according to the fair value hierarchy described previously.

Group	**Level 1 2018 £m**	**Level 2 2018 £m**	**Total 2018 £m**
Financial assets			
Investment securities	311.9	-	**311.9**
Derivative financial instruments	-	19.5	**19.5**
Loans and advances to customers	-	8.4	**8.4**
	311.9	**27.9**	**339.8**
Financial liabilities			
Derivative financial instruments	-	38.7	**38.7**
Debt securities in issue	-	12.5	**12.5**
	-	**51.2**	**51.2**

Group	Level 1 2017 £m	Level 2 2017 £m	Total 2017 £m
Financial assets			
Investment securities	385.0	-	385.0
Derivative financial instruments	-	6.3	6.3
Loans and advances to customers	-	18.3	18.3
	385.0	24.6	409.6
Financial liabilities			
Derivative financial instruments	-	69.0	69.0
Debt securities in issue	-	17.4	17.4
	-	86.4	86.4

Society	Level 1 2018 £m	Level 2 2018 £m	Total 2018 £m
Financial assets			
Investment securities	311.9	-	**311.9**
Derivative financial instruments	-	19.5	**19.5**
	311.9	**19.5**	**331.4**
Financial liabilities			
Derivative financial instruments	-	31.5	**31.5**
	-	**31.5**	**31.5**

Society	Level 1 2017 £m	Level 2 2017 £m	Total 2017 £m
Financial assets			
Investment securities	385.0	-	385.0
Derivative financial instruments	-	6.2	6.2
	385.0	6.2	391.2
Financial liabilities			
Derivative financial instruments	-	59.7	59.7
	-	59.7	59.7

32. Credit risk

Credit risk can be described as the risk of customers or counterparties being unable to meet their financial obligations to the Group as they become due.

The Group is exposed to this risk through its lending to:

- individuals (consumers - residential mortgages, including buy to let);
- businesses (non-consumers - previous commercial lending and elements of buy to let exposure); and
- wholesale counterparties (including other financial institutions). Specifically within the treasury portfolio assets, where credit risk arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes.

Changes in the credit quality and the recoverability of loans and amounts due from counterparties influence the Group's exposure to credit risk. Adverse changes in the credit quality of counterparties, collateral values or deterioration in the wider economy, including rising unemployment, worsening household finances and tightening in the UK property market, resulting in declining property values, could affect the recoverability and value of the Group's assets and influence its financial performance. An economic downturn and future falls in property values (either residential or commercial) could affect the level of impairment losses recognised.

The controlled management of credit risk is critical to the Group's overall strategy. The Group has therefore embedded a comprehensive and robust credit risk management framework with clear lines of accountability and oversight as part of its overall governance framework. The Group has effective policies and procedures to identify, measure, monitor, manage and report credit risk within the Group's risk appetite.

The Risk Committee is responsible for the oversight of credit risk appetite that has been established by the Board and for approving lending policy and setting limits on credit exposures, which are monitored and reviewed on a monthly basis. The minutes of this committee are presented to the Board. This committee is supported by four Executive sub-committees; the Executive Risk Committee, the Residential Credit Committee, the Commercial Loans Risk Committee and the Model Risk Committee. Their role in the credit risk framework is outlined below:

- The Executive Risk Committee (ERC) is responsible for providing the Risk Committee with an enterprise wide view of the risk profile of the Society including current and potential risks. The ERC is also accountable for driving the detailed implementation of the Society's Risk Management Framework. In the context of credit risk the ERC proposes to Risk Committee any recommendations for Board approval regarding the Residential Lending Statement, Credit Risk Appetite Statement and Lending and Security Policies.
- The Residential Credit Committee is responsible for the monitoring of the Group's residential credit exposures and approving changes to the credit scoring systems that are utilised. In addition, the Committee reviews the type and quality of approved residential mortgage business and appraises actual arrears and repossession levels against trends and industry averages. A summary of the minutes of this committee are presented to the ERC.
- The Commercial Loans Risk Committee reviews individual commercial loans at levels mandated by the Board. This may involve reviewing individual cases on a quarterly, half yearly or annual basis.
- The Model Risk Committee supports the Society's development and maintenance of sophisticated credit risk models. The committee oversees the initiation, development, approval, implementation, performance, monitoring and validation of the Society's models in the context of compliance with both Regulation and the Society's own governance requirements. A summary of the minutes of this committee are presented to the ERC.

The Group adopts a responsible approach to lending ensuring that loans are, and are expected to remain, affordable.

The maximum credit risk exposure is the carrying value as shown in the tables on pages 92 to 95. 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 2018 £m**	Group 2017 £m	**Society 2018 £m**	Society 2017 £m
Prime owner occupied	**2,677.5**	2,349.6	**2,530.8**	2,178.3
Buy to let	**1,637.1**	1,803.6	**411.3**	446.0
Other	**71.4**	81.9	**1.4**	1.6
Gross balances	**4,386.0**	4,235.1	**2,943.5**	2,625.9
Impairment provisions	**(13.2)**	(16.3)	**(8.4)**	(8.8)
Fair value adjustments	**(13.3)**	9.6	**(13.3)**	9.6
	4,359.5	4,228.4	**2,921.8**	2,626.7

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

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
East Anglia	130.2	122.7	86.4	73.2
East Midlands	450.9	415.3	320.0	265.7
Greater London	520.3	553.6	239.3	240.9
Northern Ireland	4.5	5.2	0.8	0.9
North	187.8	164.2	132.6	103.9
North West	546.6	496.1	380.0	312.9
Scotland	105.3	116.2	30.5	34.8
South East	725.4	751.7	468.5	458.5
South West	366.1	353.4	255.6	229.1
Wales	218.0	207.6	150.4	131.6
West Midlands	718.6	705.7	585.2	559.5
Yorkshire	412.3	343.4	294.2	214.9
	4,386.0	4,235.1	2,943.5	2,625.9

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

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
>95%	48.1	74.3	27.4	36.9
90% - 95%	97.5	73.8	86.6	45.9
85% - 90%	224.0	200.1	196.5	126.4
75% - 85%	673.4	720.0	429.1	367.5
50% - 75%	2,258.6	2,155.1	1,403.7	1,328.2
<50%	1,084.4	1,011.8	800.2	721.0
	4,386.0	4,235.1	2,943.5	2,625.9

The Group's average indexed loan to value at the year end date is 55.0% (2016/17: 55.7%).

The table below provides further information on the Group's residential loans and advances to customers by payment due status at 31 March 2018:

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Loans neither past due or impaired	4,316.9	4,156.1	2,904.2	2,578.9
Past due but not impaired				
Past due 1 to 3 months	21.5	21.5	9.2	9.0
Impaired				
Not past due but impaired	19.5	20.4	19.5	20.4
Past due 1 to 3 months	1.8	1.9	0.1	0.6
Past due 3 to 6 months	8.6	12.5	3.6	5.0
Past due 6 to 12 months	3.7	6.5	2.9	4.2
Past due over 12 months	1.1	3.4	0.3	1.3
Possessions	12.9	12.8	3.7	6.5
	4,386.0	4,235.1	2,943.5	2,625.9

32. Credit risk (continued)

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

Fair value of collateral held	**Group 2018 £m**	Group 2017 £m	**Society 2018 £m**	Society 2017 £m
Not impaired	**8,546.5**	8,132.6	**5,888.7**	5,276.9
Impaired	**70.0**	92.0	**35.1**	42.7
Possessions	**13.5**	13.7	**3.5**	6.2
	8,630.0	8,238.3	**5,927.3**	5,325.8

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 borrowers to control arrears and, wherever possible, avoid repossession. These are set out in the relevant Group policies. The agreed strategy will reflect the customer's individual circumstances, appropriately taking any disclosed vunerabilities into consideration, and will be used in line with industry guidance. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans.

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

Group	Arrangements 2018 £m	Concessions 2018 £m	Capitalisation 2018 £m	Term extensions 2018 £m	Total 2018 £m
Loans neither past due or impaired	0.7	0.6	1.6	7.4	**10.3**
Past due but not impaired					
Past due 1 to 3 months	2.0	0.7	0.3	0.2	**3.2**
Impaired					
Past due 1 to 3 months	0.1	-	-	-	**0.1**
Past due 3 to 6 months	2.5	0.3	0.1	0.1	**3.0**
Past due 6 to 12 months	2.1	0.1	-	-	**2.2**
Past due over 12 months	0.8	-	-	0.1	**0.9**
	8.2	**1.7**	**2.0**	**7.8**	**19.7**

Group	Arrangements 2017 £m	Concessions 2017 £m	Capitalisation 2017 £m	Term extensions 2017 £m	Total 2017 £m
Loans neither past due or impaired	1.7	0.2	3.3	2.9	8.1
Past due but not impaired					
Past due 1 to 3 months	2.9	0.4	-	-	3.3
Impaired					
Past due 1 to 3 months	0.5	-	-	-	0.5
Past due 3 to 6 months	5.1	0.1	-	0.1	5.3
Past due 6 to 12 months	2.8	-	-	0.3	3.1
Past due over 12 months	1.7	0.1	-	0.2	2.0
	14.7	0.8	3.3	3.5	22.3

Commercial assets

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Concentration by loan type				
Loans secured on commercial property	**436.8**	524.5	**13.8**	13.8
Loans secured on residential property	**17.9**	18.7	**16.6**	16.6
Gross balances	**454.7**	543.2	**30.4**	30.4
Impairment provisions	**(42.1)**	(39.4)	**-**	-
Fair value adjustments	**33.3**	44.3	**4.6**	6.6
	445.9	548.1	**35.0**	37.0

Of the fair value adjustments, £30.8m (2016/17: £40.7m) relate to loans secured on commercial property and £2.5m (2016/17: £3.6m) relate to loans secured on residential property.

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

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Healthcare and leisure	**117.6**	139.4	**-**	-
Industrial and warehouse	**17.1**	23.3	**3.5**	3.5
Office	**26.2**	35.1	**4.0**	4.0
Retail	**275.7**	305.4	**6.3**	6.3
Other	**0.2**	21.3	**-**	-
	436.8	524.5	**13.8**	13.8

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

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
East Anglia	**13.5**	13.8	**0.1**	0.1
East Midlands	**30.4**	36.7	**2.0**	2.0
Greater London	**40.8**	59.1	**19.1**	19.1
North	**33.4**	34.6	**-**	-
North West	**145.4**	178.7	**3.5**	3.5
Scotland	**2.7**	12.0	**0.9**	0.9
South East	**74.2**	79.2	**1.4**	1.4
South West	**16.3**	21.4	**0.1**	0.1
Wales	**11.6**	14.3	**0.5**	0.5
West Midlands	**45.9**	49.2	**-**	-
Yorkshire	**40.5**	44.2	**2.8**	2.8
	454.7	543.2	**30.4**	30.4

The Group's average indexed loan to value at the year end date is 79.6% (2016/17: 79.5%).

32. Credit risk (continued)

The table below provides further information on the Group's commercial assets by payment due status at 31 March 2018:

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Loans neither past due or impaired	264.2	340.2	30.4	30.4
Not past due but impaired	77.3	69.6	-	-
Past due but not impaired				
Past due up to 3 months	-	2.8	-	-
Impaired				
Past due up to 3 months	-	20.6	-	-
Past due 3 to 6 months	5.1	4.6	-	-
Past due 6 to 12 months	36.3	21.1	-	-
Past due over 12 months	71.8	84.3	-	-
	454.7	543.2	30.4	30.4

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

Group **Value of collateral held**	Indexed 2018 £m	Unindexed 2018 £m	Indexed 2017 £m	Unindexed 2017 £m
Not impaired	374.4	325.3	477.0	424.4
Impaired	115.2	102.7	97.7	88.4
	489.6	428.0	574.7	512.8

Society **Value of collateral held**	Indexed 2018 £m	Unindexed 2018 £m	Indexed 2017 £m	Unindexed 2017 £m
Not impaired	87.9	71.5	86.6	71.5

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.

Forbearance strategies and renegotiated loans

Certain forbearance activities are applied on a small number of commercial mortgages. Loans that have been restructured (generally via a term extension) and would otherwise have been past due 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.

The analysis below sets out the commercial mortgage balances with evidence of forbearance and renegotiated terms at the year end date.

Group	Arrangements 2018 £m	Capitalisation 2018 £m	Term extensions 2018 £m	Total 2018 £m
Loans neither past due or impaired	**3.6**	**-**	**6.8**	**10.4**
Not past due but impaired	**-**	**11.2**	**-**	**11.2**
Impaired				
Past due 6 to 12 months	**12.9**	**-**	**-**	**12.9**
Past due over 12 months	**3.0**	**-**	**-**	**3.0**
	19.5	**11.2**	**6.8**	**37.5**

Group	Arrangements 2017 £m	Capitalisation 2017 £m	Term extensions 2017 £m	Total 2017 £m
Loans neither past due or impaired	7.0	-	44.7	51.7
Not past due but impaired	-	11.2	10.9	22.1
Impaired				
Past due 6 to 12 months	13.0	-	-	13.0
Past due over 12 months	3.0	-	-	3.0
	23.0	11.2	55.6	89.8

32. Credit risk (continued)

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 monitored, managed and controlled closely 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 'significant or prolonged' requires judgement. In making this judgement, 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 2018 and 31 March 2017 none of the Group's treasury investments were either past due or impaired and no impairment charges were required during the year.

At 31 March 2018, 100.0% (2016/17: 100.0%) of the Group's treasury assets were invested in or deposited with counterparties rated single A or better or classified as a Global Systemically Important Counterparty (GSIC). The tables below show the relative concentrations of the Group's treasury investment portfolio, all of which are denominated in sterling:

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
Concentration by credit grading				
AAA	**294.7**	344.2	**294.7**	344.2
AA+ to AA-	**385.7**	412.0	**356.9**	367.8
A+ to A-	**59.4**	76.1	**16.8**	38.0
BBB+	**17.4**	21.5	**17.4**	21.5
Other	**-**	-	**717.5**	810.5
	757.2	853.8	**1,403.3**	1,582.0
Concentration by sector				
Financial institutions	**137.8**	219.9	**66.3**	137.5
Asset backed securities	**229.4**	249.4	**947.0**	1,060.0
Supranational institutions	**65.3**	89.7	**65.3**	89.7
Sovereign	**324.7**	294.8	**324.7**	294.8
	757.2	853.8	**1,403.3**	1,582.0
Concentration by region				
UK	**629.2**	669.8	**1,335.0**	1,458.5
Europe (excluding UK)	**47.9**	72.5	**0.6**	12.0
North America	**14.8**	7.2	**2.4**	7.2
Australasia	**-**	13.2	**-**	13.2
Supranational	**65.3**	89.7	**65.3**	89.7
Asia	**-**	1.4	**-**	1.4
	757.2	853.8	**1,403.3**	1,582.0

33. Market risk

Market risk is the potential adverse change in Group income, or the value of Group net worth, arising from movements in interest rates, exchange rates, equity prices or other market prices. The Board recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of member value.

The Group's exposure to market risk is governed by the Board approved Treasury and Financial Risk Management Policy, which sets out the nature of risks that may be taken and defines aggregate risk limits. Within this Policy, the Board has delegated responsibility for the management and control of market rate risk to the Assets & Liabilities Committee (ALCo). At each meeting, ALCo reviews reports which show the Group's current and forecast exposure to market risks together with the results of extensive stress testing.

The Society's Assets and Liabilities Management function is responsible for operational management of the Group's exposure to market risk. It achieves this by taking advantage of natural hedges arising within the Group's businesses and, for the purpose of reducing risk, transacting appropriate hedging instruments where no natural hedges exist.

Interest rate risk

The Group's exposure to interest rate risk is reported against target operating ranges set by ALCo, which themselves fall within Board Policy limits. The effect upon the Group's current and forecast net market value of assets and liabilities is determined for parallel yield curve shifts in the range +2% to -2%, subject to a floor at 0%, and for a variety of stressed non-parallel yield curve shifts, including extreme convergent and divergent Bank Rate and LIBOR paths. The impact upon net interest income is also assessed for rate movements using the same parallel and non-parallel stress rates, including convergent and divergent Bank Rate and LIBOR paths.

Analysis is also presented to show the mismatches between assets and liabilities whose rates move in line with different variable rate benchmarks such as Bank Rate, LIBOR and rates administered by the Group. Such mismatches generate additional interest rate risks (basis risk) to those assessed by parallel and non-parallel shift analysis. The Board has imposed limits upon these absolute basis mismatches.

To ensure that the overall reported interest rate risk position does not mask excessive offsetting concentrations in different periods, reprice gap concentration limits are in place to limit the maximum mismatch between assets and liabilities repricing in future time periods. In conducting this analysis, general reserves, 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' allows the income and market value sensitivity of a one basis point movement in interest rates upon the whole balance sheet to be calculated.

The Group's gap and basis mismatch positions are reported quarterly to the Prudential Regulation Authority (PRA). 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 2018 £m	Average 2018 £m	High 2018 £m	Low 2018 £m
Market value	**(6.5)**	(2.8)	(6.5)	(0.7)
Net interest income	**(3.2)**	(1.0)	(3.2)	(0.5)

Equity risk

Equity risk had historically arisen from index-linked savings products offered by the Group and was managed through the use of derivative contracts. The Group's exposure to equity risk at 31 March 2018 was £nil (2016/17: £13.4m) of fully hedged savings products, following the maturity of the remaining legacy index-linked savings products in the year.

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 Statements of Financial Position. The interest payments, receipts and changes in fair value of derivatives and hedged items are recognised in the Income Statement. Fair values are recorded in the Statements of Financial Position.

Types of derivatives

The principal derivatives used by the Group are interest rate 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, matching against fixed rate liabilities
Fixed rate savings products and funding	Sensitivity to falls in interest rates	Receive fixed rate interest rate swaps, matching against fixed rate assets
Capped, collared or floored products	Sensitivity to changes in interest rates	Matching against appropriate cap, collar or floor derivatives or suitable assets or liabilities

34. Liquidity risk

The Society's principal purpose is to make loans secured by way of mortgage on residential property funded substantially by short-term savings from its members.

The contractual maturity of the mortgages is typically up to 25 years although loans are often repaid early due to borrowers moving house or remortgaging. In contrast, the majority of members' savings are available on demand or at short notice. It is this inherent mismatch between the maturity profile of mortgage lending and the easy accessibility of savings that creates liquidity risk.

The Group's exposure to liquidity risk is governed by the Liquidity and Funding Policy sections of the Board approved Treasury and Financial Risk Management Policy.

The Liquidity and Funding limits are designed to ensure that adequate liquid assets are held to cover statutory, regulatory and operational cash requirements in both business-as-usual and stressed environments.

The Group's liquidity risk is managed as follows:

- The Board has delegated authority for the management of liquidity risk to the Assets & Liabilities Committee (ALCo) within risk tolerances set out in the Treasury and Financial Risk Management Policy. ALCo meets monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC). LMC meets regularly (typically weekly) to agree, based upon detailed customer behavioural analysis, the amount of funding required to maintain the adequacy of Group liquidity over horizons of up to three months. LMC plans cash requirements at a higher level over an extended rolling 12 month plan period;
- LMC also considers a series of daily, weekly and monthly stress tests which are designed to ensure that the Group maintains sufficient liquidity to meet its cash flow needs under any of a number of adverse scenarios. These scenarios simulate both Group specific, general market and combined events including severe savings outflows and the unavailability of wholesale funding; and
- Under the Prudential Regulation Authority's liquidity regime, the Group holds sufficient high quality liquid assets, such as government securities, supranational bonds, covered bonds and cash deposited with the Bank of England, to ensure that it can meet its liabilities over a 30 day period under stressed conditions. This is known as its Liquidity Coverage Ratio (LCR). The Group holds high quality liquidity above that required by the LCR in accordance with its own day-to-day assessment of liquidity adequacy.

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

- Liquidity ratios - assesses daily the amount of liquidity necessary to meet its LCR, NSFR and to maintain overall liquidity adequacy;
- Liquidity stress tests - models the adequacy of Group liquidity under a number of different stress scenarios within the context of the Board's liquidity risk tolerance; and
- Refinancing gaps - sets the maximum level of wholesale and combined retail/wholesale funding permitted to mature over given time periods.

Further details of liquidity management are contained within the Risk Management Report on pages 21 to 25.

The table below analyses the Group's assets and liabilities across maturity periods that reflect the residual maturity from the year end date to the contractual maturity date. The Group's liquidity management processes consider the actual repayment profiles of financial assets and liabilities which are likely to be significantly different to that shown in the analysis.

At 31 March 2018

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	318.1	-	-	-	-	6.6	**324.7**
Loans and advances to credit institutions	53.3	67.3	-	-	-	-	**120.6**
Investment securities	-	53.8	44.0	124.5	89.6	-	**311.9**
Derivative financial instruments	-	-	0.4	16.8	2.3	-	**19.5**
Loans and advances to customers	-	219.7	25.5	368.4	4,191.8	-	**4,805.4**
Deferred tax assets	-	-	-	-	-	15.3	**15.3**
Trade and other receivables	-	-	-	-	-	6.4	**6.4**
Intangible assets	-	-	-	-	-	15.3	**15.3**
Investment properties	-	-	-	-	-	132.2	**132.2**
Property, plant and equipment	-	-	-	-	-	30.2	**30.2**
	371.4	**340.8**	**69.9**	**509.7**	**4,283.7**	**206.0**	**5,781.5**
Liabilities and equity							
Shares	2,771.8	127.0	214.5	938.1	-	-	**4,051.4**
Amounts due to credit institutions	-	37.7	72.5	461.1	-	-	**571.3**
Amounts due to other customers	6.0	73.5	52.6	1.0	-	-	**133.1**
Derivative financial instruments	-	-	0.5	9.3	28.9	-	**38.7**
Debt securities in issue	-	-	-	-	493.3	-	**493.3**
Deferred tax liabilities	-	-	-	-	-	4.5	**4.5**
Trade and other payables	-	-	-	-	-	12.0	**12.0**
Provisions for liabilities	-	-	-	-	-	2.1	**2.1**
Retirement benefit obligations	-	-	-	-	-	5.1	**5.1**
Profit participating deferred shares	-	-	-	-	-	175.0	**175.0**
Subscribed capital	-	-	-	-	-	75.0	**75.0**
General reserves	-	-	-	-	-	215.8	**215.8**
Revaluation reserve	-	-	-	-	-	3.4	**3.4**
Available for sale reserve	-	-	-	-	-	0.8	**0.8**
	2,777.8	**238.2**	**340.1**	**1,409.5**	**522.2**	**493.7**	**5,781.5**

34. Liquidity risk (continued)

At 31 March 2017

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	287.6	-	-	-	-	7.2	294.8
Loans and advances to credit institutions	52.1	121.9	-	-	-	-	174.0
Investment securities	-	13.7	152.1	219.2	-	-	385.0
Derivative financial instruments	-	2.2	0.1	2.5	1.5	-	6.3
Loans and advances to customers	-	284.9	73.9	319.2	4,098.5	-	4,776.5
Deferred tax assets	-	-	-	-	-	16.4	16.4
Trade and other receivables	-	-	-	-	-	3.5	3.5
Intangible assets	-	-	-	-	-	13.3	13.3
Investment properties	-	-	-	-	-	128.9	128.9
Property, plant and equipment	-	-	-	-	-	32.1	32.1
	339.7	422.7	226.1	540.9	4,100.0	201.4	5,830.8
Liabilities and equity							
Shares	3,150.6	123.6	179.5	973.6	-	-	4,427.3
Amounts due to credit institutions	-	135.7	90.5	224.1	-	-	450.3
Amounts due to other customers	7.3	74.9	49.5	1.0	-	-	132.7
Derivative financial instruments	-	0.1	3.4	16.8	48.7	-	69.0
Debt securities in issue	-	58.0	-	145.7	59.5	-	263.2
Deferred tax liabilities	-	-	-	-	-	5.0	5.0
Trade and other payables	-	-	-	-	-	10.2	10.2
Provisions for liabilities	-	-	-	-	-	3.1	3.1
Retirement benefit obligations	-	-	-	-	-	6.5	6.5
Profit participating deferred shares	-	-	-	-	-	173.0	173.0
Subscribed capital	-	-	-	-	-	75.0	75.0
General reserves	-	-	-	-	-	211.0	211.0
Revaluation reserve	-	-	-	-	-	3.5	3.5
Available for sale reserve	-	-	-	-	-	1.7	1.7
Cash flow hedging reserve	-	-	-	-	-	(0.7)	(0.7)
	3,157.9	392.3	322.9	1,361.2	108.2	488.3	5,830.8

At 31 March 2018

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	318.1	-	-	-	-	6.6	**324.7**
Loans and advances to credit institutions	8.2	41.0	-	-	-	-	**49.2**
Investment securities	-	53.8	44.0	124.5	807.1	-	**1,029.4**
Derivative financial instruments	-	-	0.4	16.8	2.3	-	**19.5**
Loans and advances to customers	-	8.4	12.4	115.4	2,820.6	-	**2,956.8**
Deferred tax assets	-	-	-	-	-	12.1	**12.1**
Trade and other receivables	-	-	-	-	-	6.4	**6.4**
Investments	-	-	-	-	-	1,350.6	**1,350.6**
Intangible assets	-	-	-	-	-	14.7	**14.7**
Property, plant and equipment	-	-	-	-	-	30.2	**30.2**
	326.3	**103.2**	**56.8**	**256.7**	**3,630.0**	**1,420.6**	**5,793.6**
Liabilities and equity							
Shares	2,771.8	127.0	214.5	938.1	-	-	**4,051.4**
Amounts due to credit institutions	-	37.7	72.5	461.1	-	-	**571.3**
Amounts due to other customers	6.7	74.7	56.5	23.8	464.1	-	**625.8**
Derivative financial instruments	-	-	0.5	7.9	23.1	-	**31.5**
Deferred tax liabilities	-	-	-	-	-	0.8	**0.8**
Trade and other payables	-	-	-	-	-	10.9	**10.9**
Provisions for liabilities	-	-	-	-	-	2.0	**2.0**
Retirement benefit obligations	-	-	-	-	-	5.1	**5.1**
Profit participating deferred shares	-	-	-	-	-	175.0	**175.0**
Subscribed capital	-	-	-	-	-	75.0	**75.0**
General reserves	-	-	-	-	-	240.6	**240.6**
Revaluation reserve	-	-	-	-	-	3.4	**3.4**
Available for sale reserve	-	-	-	-	-	0.8	**0.8**
	2,778.5	**239.4**	**344.0**	**1,430.9**	**487.2**	**513.6**	**5,793.6**

34. Liquidity risk (continued)

At 31 March 2017

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	287.6	-	-	-	-	7.2	294.8
Loans and advances to credit institutions	9.0	82.7	-	-	-	-	91.7
Investment securities	-	66.4	152.1	259.8	717.2	-	1,195.5
Derivative financial instruments	-	2.2	0.1	2.5	1.4	-	6.2
Loans and advances to customers	-	10.6	16.5	114.8	2,521.8	-	2,663.7
Deferred tax assets	-	-	-	-	-	11.7	11.7
Trade and other receivables	-	-	-	-	-	3.3	3.3
Investments	-	-	-	-	-	1,526.9	1,526.9
Intangible assets	-	-	-	-	-	12.7	12.7
Property, plant and equipment	-	-	-	-	-	32.1	32.1
	296.6	161.9	168.7	377.1	3,240.4	1,593.9	5,838.6
Liabilities and equity							
Shares	3,150.6	123.6	179.5	973.6	-	-	4,427.3
Amounts due to credit institutions	-	135.7	90.5	224.1	-	-	450.3
Amounts due to other customers	8.5	78.1	56.2	37.6	209.9	-	390.3
Derivative financial instruments	-	0.1	3.4	16.5	39.7	-	59.7
Deferred tax liabilities	-	-	-	-	-	1.0	1.0
Trade and other payables	-	-	-	-	-	9.4	9.4
Provisions for liabilities	-	-	-	-	-	3.0	3.0
Retirement benefit obligations	-	-	-	-	-	6.5	6.5
Profit participating deferred shares	-	-	-	-	-	173.0	173.0
Subscribed capital	-	-	-	-	-	75.0	75.0
General reserves	-	-	-	-	-	237.9	237.9
Revaluation reserve	-	-	-	-	-	3.5	3.5
Available for sale reserve	-	-	-	-	-	1.7	1.7
	3,159.1	337.5	329.6	1,251.8	249.6	511.0	5,838.6

The significant development of liquidity stress testing and forecast models has continued throughout 2018 due to economic and market conditions. A wide range of scenarios is considered including mild and severe stresses, credit downgrades and a total closure of the wholesale market. An analysis of the liquidity portfolio is set out in the table below:

Group	2018 £m	2018 %	2017 £m	2017 %
Cash in hand and balances with the Bank of England	**324.7**	**42.9**	294.8	34.5
Cash with banks and building societies	**120.6**	**15.9**	174.0	20.4
Fixed rate bonds	**27.3**	**3.6**	65.3	7.7
Floating rate notes	**55.2**	**7.3**	70.3	8.2
Covered bonds	**139.8**	**18.5**	137.8	16.1
Residential mortgage backed securities	**89.6**	**11.8**	111.6	13.1
Total	**757.2**	**100.0**	853.8	100.0

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

At 31 March 2018

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,553.2	218.9	291.3	-	**4,063.4**
Amounts due to credit institutions and other customers	103.6	126.2	470.7	-	**700.5**
Debt securities in issue	1.9	108.2	377.2	91.1	**578.4**
Derivative financial instruments	6.7	19.5	75.8	20.2	**122.2**
	3,665.4	**472.8**	**1,215.0**	**111.3**	**5,464.5**

At 31 March 2017

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	4,011.1	185.8	266.5	-	4,463.4
Amounts due to credit institutions and other customers	202.0	141.2	227.3	74.9	645.4
Debt securities in issue	58.3	2.0	153.0	104.6	317.9
Derivative financial instruments	3.7	13.6	45.3	25.0	87.6
	4,275.1	342.6	692.1	204.5	5,514.3

34. Liquidity risk (continued)

At 31 March 2018

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,553.2	218.9	291.3	-	**4,063.4**
Amounts due to credit institutions and other customers	103.6	126.2	470.7	-	**700.5**
Derivative financial instruments	5.4	15.5	55.6	17.7	**94.2**
	3,662.2	**360.6**	**817.6**	**17.7**	**4,858.1**

At 31 March 2017

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	4,011.1	185.8	266.5	-	4,463.4
Amounts due to credit institutions and other customers	202.0	141.2	227.3	74.9	645.4
Derivative financial instruments	3.2	12.6	40.7	21.2	77.7
	4,216.3	339.6	534.5	96.1	5,186.5

For each material class of financial liability a maturity analysis is provided on pages 105 to 108.

35. Financial commitments

	Group 2018 £m	Group 2017 £m	Society 2018 £m	Society 2017 £m
a) Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	**-**	0.3	**-**	0.3
b) Leasing commitments				
Total commitments under non-cancellable leases				
Rental commitments arising:				
Within one year	**0.5**	0.5	**0.5**	0.5
Later than one year and not later than five years	**1.2**	1.5	**1.2**	1.5
After five years	**0.1**	-	**0.1**	-
	1.8	2.0	**1.8**	2.0
c) Loan commitments				
Undrawn loan facilities	**124.1**	144.0	**124.1**	144.0

36. Related party transactions

i) Subsidiary, parent and ultimate controlling party

The Group is controlled by West Bromwich Building Society which is considered to be the ultimate parent undertaking. The subsidiaries of the Society are detailed in note 15. The Group's registered office and principal place of business is 2 Providence Place, West Bromwich, B70 8AF.

ii) Key management personnel

The Board considers key management personnel to comprise Executive and Non-Executive Directors. Details of Directors' emoluments are disclosed in note 8.

iii) Transactions with key management personnel and their close family members

The table below shows outstanding balances and transactions with key management personnel, which comprises Group Directors, and their close family members:

Group and Society	No. of key management personnel 2018	Amount in respect of key management personnel and their close family members 2018 £000	No. of key management personnel 2017	Amount in respect of key management personnel and their close family members 2017 £000
Savings balances at 31 March	**10**	**132**	10	59
Interest payable on savings balances	**10**	**1**	10	-

Mortgage loans and savings are available to key management personnel and members of their close family at normal commercial terms. At 31 March 2018, there were no mortgage loans (2016/17: nil) outstanding to Directors and their connected persons.

A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and Directors of the Society or persons connected with Directors of the Society. The register will be available for inspection by members at the Annual General Meeting and during normal office hours at the Society's Principal Office (2 Providence Place, West Bromwich) during the period 15 days prior to the meeting.

iv) Contributions to pension schemes

During the year the Group paid contributions of £3.4m (2016/17: £3.4m) to defined benefit pension schemes, which are classified as related parties.

As part of the ongoing funding agreement for the West Bromwich Building Society Staff Retirement Scheme (the SRS), the Trustees of the SRS have been granted a charge over the Society's Head Office, which may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS.

v) Transactions with Group companies

	Interest paid to Society 2018 £m	Interest paid to Society 2017 £m
Insignia Finance Limited	**0.1**	0.3
West Bromwich Commercial Limited	**12.2**	17.6
West Bromwich Homes Limited	**2.9**	2.9
West Bromwich Mortgage Company Limited	**15.8**	21.4
	31.0	42.2

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

	Loans owed by subsidiaries 2018 £m	Loans owed by subsidiaries 2017 £m
Insignia Finance Limited	**13.1**	7.3
West Bromwich Commercial Limited	**411.0**	489.8
West Bromwich Homes Limited	**120.2**	122.1
West Bromwich Mortgage Company Limited	**805.7**	907.1
	1,350.0	1,526.3

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

The loans owed by West Bromwich Commercial Limited are net of impairment provisions of £92.4m (2016/17: £78.2m).

37. Business segments

Operating segments are reported in accordance with the internal reporting provided to the Group Board (the chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group has three main business segments:

- Retail - incorporating residential lending, savings, investments and protection;
- Commercial - primarily representing loans for commercial property investment; and
- Property - a portfolio of residential properties for rent.

Central Group operations have been included in Retail and comprise risk management, finance, treasury services, human resources and computer services, none of which constitute a separately reportable segment.

There were no changes to 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 Group Board is measured in a manner consistent with that in the consolidated Income Statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. Central administrative costs are also allocated between segments and are disclosed in inter-segment administrative expenses. There are no other material items of income or expense between the business segments.

The Group does not consider its operations to be cyclical or seasonal in nature.

Income Statements for the year ended 31 March 2018

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income	97.4	13.3	-	(13.4)	**97.3**
Interest expense and similar charges	(40.8)	(11.5)	(2.9)	13.4	**(41.8)**
Net interest receivable/(expense)	**56.6**	**1.8**	**(2.9)**	**-**	**55.5**
Fees and commissions receivable	2.7	-	-	-	**2.7**
Other operating income	(0.2)	-	4.0	-	**3.8**
Fair value (losses)/gains on financial instruments	(0.5)	3.0	-	-	**2.5**
Total income	**58.6**	**4.8**	**1.1**	**-**	**64.5**
Administrative expenses	(41.8)	(1.6)	(0.1)	-	**(43.5)**
Depreciation and amortisation	(7.2)	-	-	-	**(7.2)**
Operating profit before revaluation gains, impairment and provisions	**9.6**	**3.2**	**1.0**	**-**	**13.8**
Gains on investment properties	-	-	3.8	-	**3.8**
Impairment on loans and advances	0.1	(8.0)	-	-	**(7.9)**
Provisions for liabilities	(0.9)	-	-	-	**(0.9)**
Profit/(Loss) before tax	**8.8**	**(4.8)**	**4.8**	**-**	**8.8**

Statements of Financial Position at 31 March 2018

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	**5,709.0**	**449.5**	**134.8**	**(511.8)**	**5,781.5**
Total liabilities	**5,259.8**	**507.9**	**124.0**	**(580.2)**	**5,311.5**
Capital expenditure	**7.3**	**-**	**-**	**-**	**7.3**

Income Statements for the year ended 31 March 2017

	Retail* £m	Commercial £m	Property £m	Consolidation adjustments* £m	Total Group £m
Interest receivable and similar income	107.2	18.2	-	(16.5)	108.9
Interest expense and similar charges	(52.4)	(14.8)	(2.9)	16.5	(53.6)
Net interest receivable/(expense)	54.8	3.4	(2.9)	-	55.3
Fees and commissions receivable	2.7	-	-	-	2.7
Other operating income	-	-	4.1	-	4.1
Fair value (losses)/gains on financial instruments	(0.3)	0.1	-	-	(0.2)
Net realised gains	0.5	-	-	-	0.5
Total income	57.7	3.5	1.2	-	62.4
Administrative expenses	(42.5)	(1.7)	(0.2)	-	(44.4)
Depreciation and amortisation	(5.7)	-	-	-	(5.7)
Operating profit before revaluation gains, impairment and provisions	9.5	1.8	1.0	-	12.3
Gains on investment properties	-	-	5.4	-	5.4
Impairment on loans and advances	3.5	(11.1)	-	-	(7.6)
Provisions for liabilities	(29.9)	-	-	-	(29.9)
(Loss)/Profit before tax	(16.9)	(9.3)	6.4	-	(19.8)

Statements of Financial Position at 31 March 2017

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	5,744.3	548.8	132.1	(594.4)	5,830.8
Total liabilities	5,295.2	588.6	125.8	(642.3)	5,367.3
Capital expenditure	9.0	-	-	-	9.0

*Prior year comparatives have been restated. Intra-group dividends and impairment of intercompany loans are netted within consolidation adjustments.

38. Asset encumbrance

Certain financial assets have been utilised as collateral to support the wholesale funding initiatives of the Group. As the Group has retained substantially all of the risks and rewards of ownership, the assets remain on the Statement of Financial Position but are encumbered and cannot be utilised for other purposes.

As described in note 13, the Group has established a number of securitisation structures funded by the issue of mortgage backed securities (MBSs). Retained MBSs and designated mortgage loan pools may be pledged as collateral for participation in Bank of England funding schemes.

For liquidity management purposes, the Society also enters into sale and repurchase agreements whereby it sells investment securities to third parties with a commitment to repurchase them at a future date. The proceeds of the sale and repurchase agreements are included within amounts due to credit institutions.

An analysis of Group assets pledged at 31 March is set out below.

	Encumbered 2018 £m	**Unencumbered 2018 £m**	Encumbered 2017 £m	Unencumbered 2017 £m
Cash and balances at the Bank of England	**53.0**	**271.7**	-	294.8
Loans and advances to credit institutions	**-**	**120.6**	59.5	114.5
Investment securities	**-**	**311.9**	10.0	375.0
Derivative financial instruments	**-**	**19.5**	-	6.3
Loans and advances to customers	**1,585.1**	**3,220.3**	1,134.9	3,641.6
Other assets	**-**	**199.4**	-	194.2
	1,638.1	**4,143.4**	1,204.4	4,626.4

In addition to the above, at 31 March 2018, Group loans and advances to credit institutions included £41.0m (2016/17: £82.6m) of collateral pledged against derivative financial instruments and £nil (2016/17: £1.4m) cash collateral paid in relation to sale and repurchase agreements.

39. Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

West Bromwich Building Society (the Society) is the 7th largest building society in the UK. As a mutual organisation, the Society is owned and run for the benefit of its members with the safety of members' funds being paramount. In providing a safe haven for members' funds, the Society can fulfil its primary purpose of enabling home ownership through the provision of mortgages.

These consolidated financial statements of the West Bromwich Building Society Group (the Group) include the audited results of the Society, its subsidiary undertakings and a number of securitisation entities. The consolidated entities, their principal activities and countries of incorporation are detailed in note 15. All of the consolidated entities are incorporated in the United Kingdom (UK), with the exception of Hawthorn Finance Limited which is incorporated in Jersey.

Basis of preparation

- The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in note 7.
- Turnover represents Group total income as disclosed in the Group Income Statement. Total income comprises net interest, fees and commissions receivable and other operating income, together with fair value gains/losses and net realised profits/losses on financial instruments.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Income Statement.
- Corporation tax receipts/payments represent the amount of tax received/paid during the year, as disclosed in the Group Cash Flow Statement.
- Public subsidies received represent direct support by the government and exclude any central bank operations that are designed for financial stability purposes or operations that aim to facilitate the functioning of the monetary policy transmission mechanism.

	2018	2017
Average number of Group employees, all of which employed in the UK	**753**	758
Arising in the UK:	**£m**	£m
Group total income	**64.5**	62.4
Group profit/(loss) before tax	**8.8**	(19.8)
Group corporation tax (receipts)/payments	**(0.1)**	-
Public subsidies received by the Group	**-**	-

Hawthorn Finance Limited did not transact with entities outside the Group and had no employees (2016/17: nil)

40. Post balance sheet event (non-adjusting)

In March 2018, the Society announced the launch of its liability management exercise (LME) to modernise its capital structure through issues of financial instruments called core capital deferred shares (CCDS). CCDS are instruments specifically designed to comply with the Common Equity Tier 1 (CET 1) capital eligibility criteria under the current prudential rules. The Society invited professional holders of profit participating deferred shares (PPDS) to exchange their holdings for a combination of CCDS and 11% subordinated tier 2 notes (Tier 2 Notes). Professional investors holding permanent interest bearing shares (PIBS) were invited to exchange their holdings for a combination of CCDS, Tier 2 Notes and cash.

The PPDS were fully cancelled in April 2018, following the completion of the LME. In completing the LME, 100% of PPDS holders and 88% of PIBS holders accepted the invitation to exchange or tender. While the CET 1 and total capital ratios will be broadly the same after the LME, the transaction will benefit members' interests in the long term delivering a circa 1% increase in the Group total capital ratio under full implementation of the CRD IV rules.

Annual Business Statement

1. Statutory percentages

	2018 %	Statutory limit %
Lending limit	**10.5**	25.0
Funding limit	**14.8**	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group plus allowance for losses on loans and advances less liquid assets, investment properties, intangible assets and property, plant and equipment as shown in the Group Statement of Financial Position.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

Securitised assets and related liabilities are excluded from the lending limit and funding limit calculations in line with the Building Societies Act 1986 as updated by the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2018 %	2017* %
As a percentage of shares and borrowings:		
Gross capital	**8.95**	8.79
Free capital	**5.88**	5.90
Liquid assets	**14.43**	16.19
As a percentage of mean total assets:		
Profit/(Loss) for the financial year	**0.14**	(0.44)
Management expenses	**0.87**	0.86

*2017 comparatives have been restated for consistency with the current year calculations, details of which are given below.

The above percentages have been prepared from the Group's accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, in each case including accrued interest.
- 'Gross capital' represents the aggregate of general reserves, 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 2018

Name, qualification and age	Role	Date of appointment	Other directorships and interests
Julie Hopes MBA, ACIB Age 50	Non-Executive Director	1 April 2016	Police Mutual Assurance Society Co-op General Insurance
Mark Nicholls MA (Cantab), MBA Age 69	Chairman	1 January 2010	Northern Investors Company PLC Rathbone Brothers Plc Rathbone Investment Management Ltd
Mark Preston BA (Hons), ACIB Age 58	Non-Executive Director	18 May 2011	The Northview Group Ltd
Martin Ritchley FCA, FCIB, Hon DBA (Coventry) Age 71	Deputy Chairman and Senior Independent Director	1 September 2009	Royal Shakespeare Theatre Trust
Richard Sommers MA (Oxon), ACIB Age 61	Non-Executive Director	1 October 2009	Sidmouth Rugby Football Club Limited Sidmouth RFC Trading Limited Al Rayan Bank PLC
James Turner FCA, FCSI, BA (Hons) Age 48	Non-Executive Director	1 April 2017	Prudential Public Limited Company
Colin Walklin BSc, FCA Age 64	Non-Executive Director	20 July 2011	Standard Life Employee Services Limited Standard Life Oversea Holdings Limited Standard Life Wealth Limited
Ashraf Piranie FCCA, MBA Age 54	Group Finance & Operations Director	13 March 2017	Elite Star Investments Limited Osborne House Property Management Limited DPC (2011) Limited West Bromwich Mortgage Company Limited CL Mortgages Limited
Jonathan Westhoff BA (Hons) Financial Services, FCMA, CGMA, ACIB Age 53	Chief Executive	5 May 2009	West Bromwich Commercial Limited West Bromwich Homes Limited West Bromwich Mortgage Company Limited CL Mortgages 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 and Ashraf Piranie entered into his service contract on 13 March 2017, on this basis.

For further details of the Executive Directors' service contracts, see the Directors' Remuneration Report on pages 38 to 44.

Documents may be served on any of the above named Directors at the following address: Addleshaw Goddard, 3 Sovereign Square, Sovereign Street, Leeds LS1 4ER.

Senior management	Role	Group directorships
Peter Collingridge BSc (Hons), MEng	Divisional Director, IT	
Andrea Hackett	Divisional Director, Operations	
Manjit Hayre	Chief Financial Risk Officer	
Greg Johnson ACIB	Divisional Director, Change	
Thomas Lynch MA, ACA	Divisional Director, Treasury & Finance	Central Processing Limited CL Mortgages Limited White Label Lending Limited Sandwell Commercial Finance No. 1 Plc Sandwell Commercial Finance No. 2 Plc Sandwell Finance Holdings Limited Insignia Finance Limited West Bromwich Mortgage Company Limited
John McErlean MIIA, FIIA	Divisional Director, Internal Audit	
Neil Noakes	Group Secretary	Insignia Finance Limited West Bromwich Homes Limited White Label Lending Limited
Jacqui Randle BSc, FCIPD	Divisional Director, Human Resources	WBBS (SRS) Limited
James Wright BSc, ACIB, CIM Dip	Divisional Director, Sales & Marketing	Central Processing Limited

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears – Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is unpaid or overdue. The value of the arrears is the value of the payments that have been missed.

Asset backed securities (ABS) – Securities that represent an interest in an underlying pool of referenced assets. Typically these assets are pools of residential or commercial mortgages.

Basel III – 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 requirements, embedded using CRD IV, became effective from 1 January 2014.

Capital Requirements Regulation and Capital Requirements Directive IV (CRD IV) – CRD IV is the legislative package made up of the Capital Requirements Regulation and the Capital Requirements Directive to implement the Basel III agreement.

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).

Common Equity Tier 1 capital (CET 1) – CET 1 capital comprises internally generated capital from general reserves and other reserves less intangible assets, goodwill and other regulatory adjustments.

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

Contractual maturity – The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Core Capital Deferred Shares (CCDS) – A form of Common Equity Tier 1 (CET 1) capital issued by building societies.

Credit risk – The risk that a customer or counterparty is unable to honour their obligations as they fall due.

Debt securities in issue – Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit and non-recourse finance.

Derivative financial instruments – A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value depends on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate risk.

Effective interest method – The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid or received between parties to the contract that are considered integral.

Fair value – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Services Compensation Scheme (FSCS) – The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every deposit taking firm authorised by the PRA 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. The calculation of the funding limit is explained in the Annual Business Statement.

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.

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

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

Individual Liquidity Adequacy Assessment (ILAA) – The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.

Individually/collectively assessed – At each Statement of Financial Position date the Group assesses whether or not there is objective evidence that individual financial assets are impaired. If no objective evidence of impairment exists for an individually assessed financial asset, it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. A collective provision is made against a group of financial assets where there is evidence that credit losses have been incurred, but not individually identified, at the reporting date.

Interest rate risk – Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Internal Capital Adequacy Assessment Process (ICAAP) – The Group's own assessment, as part of regulatory requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.

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.

Lending limit – Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement.

Leverage ratio – Tier 1 capital as a percentage of total exposures which include on and off balance sheet assets after netting derivatives.

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

Liquidity coverage ratio (LCR) – A Basel III measure to ensure sufficient highly liquid assets cover expected net cash outflows under a 30-day liquidity stress scenario.

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 on which it is secured. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI)).

Loans past due/past due loans – Loans on which payments are overdue including those on which partial payments are being made.

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) – Securities offered by a company to investors, through a dealer, across a range of maturities.

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

Mortgage backed securities (MBS) – 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 total assets.

Net stable funding ratio (NSFR) – A ratio calculated as the amount of available stable funding against the amount of required stable funding.

Non-recourse finance – A secured loan (debt) that is secured by a pledge of collateral but for which the borrower is not personally liable. If the borrower defaults, the lender can seize the collateral, but the lender's recovery is limited to the collateral alone.

Operational risk – The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Other income – The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products, other insurances and property rental income).

Permanent interest bearing shares (PIBS) – Unsecured, deferred shares that rank behind the claims of all depositors, payables and investing members of the West Brom with the exception of the claims of holders of profit participating deferred shares.

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

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

Renegotiated loans – Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower.

Repo/Reverse repo – Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as asset backed securities (ABS) or government bonds as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential loans – 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 represents interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Risk appetite – The articulation of the level of risk that the 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 III 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. An entity transfers these assets to a structured entity which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities.

Shares – Money deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings – The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.

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 judgements and discharged bankruptcies.

Term Funding Scheme (TFS) – A scheme launched by the Bank of England, providing term funding to banks and building societies with the aim of promoting UK lending growth.

Tier 1 capital – An element of regulatory capital and measure of financial strength, comprising Common Equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital is not deemed to be fully loss absorbing and can only be included in capital under the transitional arrangements of CRD IV.

Tier 2 capital – An element of regulatory capital comprising the Group's collective impairment allowance and certain regulatory deductions 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.

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