Supporting the wellbeing of our members, colleagues and communities

Annual Report and Accounts

Year ended 31 March 2021

the West Brom

Contents

Key highlights of the 2020/21 financial year

New mortgage lending

£784m

38% increase in new mortgage lending to **£784m** (2019/20: £569m) and **£1.2bn** in new applications (2019/20: £0.9bn).

9% increase in residential owner occupied balances

9% increase in residential owner occupied balances (2019/20: 3%) with 1 in 3 of all new mortgages helping support first-time buyers (2019/20: c.1 in 2).

41% above the market average

Rewarded savers with rates that were, on average, **41%** above those paid by the market[1] (2019/20: 49%); equivalent to an additional **£5.3m** in interest (2019/20: £13.0m).

Mortgage prisoners

The first lender to design and launch a range of mortgages specifically to help **mortgage prisoners.**

Net Promoter Score

+76

Demonstrated our resilience through the pandemic by remaining open for business while providing consistently outstanding service with our Net Promoter Score®[2] increasing to **+76** (2019/20: +73) and customer satisfaction maintained at **96%**.

Profit before tax

£4.7m

Improved statutory profit before tax of **£4.7m** (2019/20: £1.5m), after making appropriate provisions to reflect the impacts of the pandemic, with operating profit before provisions increasing by **26%** to **£19.6m** (2019/20: £15.5m) and a **50%** increase in underlying profit (profit before tax excluding one off items and hedge ineffectiveness) to **£2.4m**.

Common Equity Tier 1 (CET 1)

16.4%

Strong capital position maintained with a Common Equity Tier 1 (CET 1) capital ratio of **16.4%** (2019/20: 15.9%) and a leverage ratio of **6.8%** (2019/20: 6.9%).

Best in class

#1

Further external recognition as the **Best Regional Building Society** by Mortgage Finance Gazette and the **Best Regular Savings Provider** by Moneynet.

Treating customers fairly

Became one of first signatories of **The Inclusive Economy Partnership Code of Best Practice for Debt Collection & Recovery**.

Good Business Charter

Recognised for responsible business practices through accreditation by the **Good Business Charter**.

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

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

Delivering our Purpose through the pandemic: Three areas of focus

1. Prioritising the wellbeing of our members, colleagues and communities.

- Developed an online portal for members to apply for payment deferral periods, approving 5,570 deferrals in total, 99% of which have now resumed paying.
- Provided additional targeted support for vulnerable customers, applying a compassionate, flexible and fair approach to help support those borrowers whose income has been affected by the pandemic and becoming one of the first signatories of The Inclusive Economy Partnership's Code of Best Practice for Debt Collection and Recovery.
- Rewarded savers by paying average interest rates 41% above the market[1] average, equating to a total of £5.3m in additional interest.
- Retained our commitment to not place any colleagues on furlough or reduce payments where working hours or activities have reduced, alongside making no redundancies as a direct result of the pandemic.
- Prioritised the wellbeing of colleagues with over 90% feeling supported by the Society through the pandemic.
- Offered 37 online wellness sessions attended by 574 colleagues.
- Charitable fundraising during the year raised £34,000 which has been used to support three foodbanks during the pandemic.

2. Ensuring our products, services and premises are safe and accessible.

- Extended new mortgages to 6,257 borrowers including 2,051 first-time home owners, supporting owner occupied lending growth of 9%.
- Welcomed 4,513 new savers to the Society through a range of competitive savings products.
- Launched a specific proposition to help mortgage prisoners switch to more competitive products – the first lender to do so.
- Made all of our premises COVID-19 secure and introduced a range of health and safety measures including 128 Perspex screens, 46 digital thermometers and over 350 litres of sanitiser to help keep colleagues and members safe.
- Prioritised enquiries from key workers at the start of the pandemic.
- Received external recognition for our service to intermediaries, our mortgage proposition and our regular savings product[2].

3. Remaining operationally and financially resilient.

- Continued to provide members with access to all essential services through the pandemic.
- Enabled remote working for over 85% of our head office colleagues through 244 laptop deployments and remote working technology.
- Improved our Net Promoter Score®[3] from +73 at March 2020 to +76 with customer satisfaction maintained at 96%.
- Continued to hit key delivery milestones across our ambitious technology transformation programme.
- Delivered increased statutory profit before tax of £4.7m, supported by a 26% increase in operating profit to £19.6m and a 50% increase in underlying profit (profit before tax excluding one off items and hedge ineffectiveness) to £2.4m.
- Maintained surplus liquidity well above external limits.
- Maintained our robust capital position with a CET 1 ratio of 16.4% and a leverage ratio of 6.8%.

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

[2] 5 Star rating from the Financial Adviser Service Awards November 2020, Best Regional Building Society – Mortgage Finance Gazette Awards November 2020 and Best Regular Savings Provider – Moneynet Awards February 2021.

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

Our Member Commitments

At the West Brom, we have a very clear Purpose which is to **support the financial wellbeing of our members by providing a safe and good return on the savings they entrust with us and promote home ownership through responsible lending.**

Our Society Values guide us to work internally with each other and allow us to make a positive difference to all our members and wider society, and it has provided a foundation for all our business practices to be built on.

This year, to join our empowering values, we launched our Member Commitments, seven promises that we will make to all our members to ensure we always deliver the best service to our new and existing members.

To launch the Member Commitments, we created a video to show our colleagues and members how we deliver excellent service and always have their interests at the heart of everything we do.

You can see the video by scanning this QR code.

The Society prides itself on being owned by its members. Our Member Commitments and Society Values helps us to devise a culture that benefits both our members and colleagues. As we embrace these behaviours and illustrate our values, it will allow us to deliver our Member Commitments and provide a benefit of mutuality to our members.

- Listen to your ideas to make our products and services right for our members
- Promote our products and services in a clear and balanced way, showing the risks as well as the benefits
- Product rates fairly reflecting the benefit of being a mutual, run for the benefit of members
- Give you time to consider whether the product that you have chosen is right for you
- Deliver what we promise and if we get it wrong, take responsibility and explain to you why and how we can put it right
- Commit to acting responsibly and in a sustainable way to support our future members and wider society
- Play an active role in our local communities, working with local community groups, schools and charities

Chair's Statement

2020 has been one of the most difficult periods of modern times, presenting unprecedented and unforeseen challenges to our health, our economy and the lives of every person and every community in the UK. We are very proud of the incredible response of our colleagues to these challenges and on behalf of our members and communities, I thank them for all they have done. Their commitment and dedication ensured that we continued to deliver a full service throughout all the phases of the pandemic and that we were able to be there for our members.

2020 has shown the West Brom at its best – supporting its members and its communities when they needed us. It is a great honour and privilege for me to have been appointed the Society's Chair, following the retirement of Mark Nicholls in March. The contribution Mark has made over an 11 year period cannot be overstated, as evidenced by the significant progress since the global financial crisis in re-establishing the West Brom as a strong independent regional building society consistently delivering against its Purpose - **supporting the financial wellbeing of members by providing a safe and good return on the savings they entrust with us and promoting home ownership through responsible lending.**

The economy

As a result of the pandemic and the necessary actions taken to mitigate its impact, the economy is now entering a period of significant uncertainty. By the end of our financial year economic activity, as measured by GDP, was still some 12% lower than the end of 2019. To put this in context, GDP fell by 7% following the global financial crisis of 2008.

This fall in activity is a result of many industries being effectively shut down for long periods throughout 2020 and 2021, which in turn meant that at times up to 8.9m workers representing 29% of the eligible workforce were placed on furlough. This important intervention has helped delay and subject to the continued success of the vaccination programme will, hopefully, moderate any increase in actual job losses. It is however, likely that even in the most optimistic of recovery scenarios, a level of residual unemployment will persist, as government support schemes unwind. As Jonathan's Chief Executive's report will cover in more detail, the Society will continue to support our borrowers who have seen their income challenged by the pandemic, applying fairness and compassion within its approach, while working towards the most appropriate individual solution for all.

As with unemployment, government support in the form of the stamp duty holiday, coupled with significant pent-up demand, has helped the housing market rebound strongly after a period of effective closure from April to June 2020. With the West Brom committing very early on in the pandemic to remain 'open for business' and able to deliver a full operation, the Society processed over £1.2bn of mortgage applications, an increase of a third over the prior financial year. A combination of these factors, along with only a modest increase in unemployment, have helped support relatively unexpected levels of house price growth.

A focused Purpose-led performance

As Jonathan's review will cover in more detail, the Society's approach to the pandemic has been to deliver consistently against three areas of focus:

- Prioritising the wellbeing of our members, colleagues and communities;
- Ensuring the Society's products, services and premises are safe and accessible; and
- Remaining operationally and financially resilient.

I am proud to report that the actions taken to deliver on all three of these priorities have enabled us to maintain the availability of all our products and services and deliver a robust set of financial results whilst supporting the physical and mental wellbeing of members, colleagues and communities.

At £4.7m the Group has reported an increased level of profit before tax while continuing to make provisions for an anticipated increase in borrowers who may struggle to meet payments as government support begins to unwind. At 16.4% the Society's CET 1 ratio, the core measure of financial strength for banks and building societies remains robust. This will enable us to increase lending to the next generation of home owners and make significant investment in the future of the Society through our ambitious technology programme.

Security and value

In a year where we have all been reminded of the security and value that having a place to call home provides, the Society has continued to show empathetic levels of support to both first-time buyers and home owners. Despite the initial uncertainty surrounding the housing market and the employment prospects for many, at £784m the level of new owner occupied lending is 38% higher than the previous 12 months. Moreover, having identified that some categories of borrower were at risk of facing even greater levels of financial pressure during the pandemic, we became the first lender to launch products to support those trapped in unnecessarily expensive mortgage contracts, known as mortgage prisoners.

The pandemic has also reminded many of the security and value associated with having cash savings readily available to support income through unforeseen events. Published in February 2021, the second edition of the Financial Conduct Authority's (FCA's) Financial Lives Survey revealed that immediately before the pandemic 45% of adults (23.7 million individuals) were unable to cover their living expenses for three months or more and were borrowing using high-cost credit or had levels of borrowing that were unsustainable. Without an appropriate savings buffer, this group are at far greater risk of being financially vulnerable if they were to experience a drop in income, for example due to furlough or losing their job. Given how the events of the last 12 months have unfolded, these statistics act as a stark reminder that, even in an ultra-low Bank Rate environment, the act of saving remains integral to both personal financial resilience and overall financial wellbeing. To this end, it is pleasing to see the Society recognised externally as the Best Regular Savings Provider, while continuing to pay rates of interest that are on average 41% higher than the market average[1].

In terms of the medium-term outlook for the economy, while there is undoubtedly considerable uncertainty, there can be a level of short-term optimism taken from the success of the vaccine rollout programme. With severity of infection and transmission rates reduced, and a continued buoyant housing market, this can hopefully translate across the economy as a whole and, in doing so, provide the much needed economic shot in the arm for those sectors and people most affected by the pandemic.

Regulation

The regulatory agenda has unsurprisingly been dictated by the response to the pandemic. Developments in the main have sought to provide protection and flexibility to both consumers and institutions through this period of extraordinary economic and operational upheaval. The Society responded swiftly to various rounds of guidance on payment deferrals for mortgage borrowers, implementing an online process to make it easy for borrowers whose income has been impacted by the pandemic, to defer payments for up to six months.

Alongside interventions related to the pandemic, other significant regulatory and legislative agendas have progressed including those related to climate change, operational resilience, vulnerable customers and the industry response to fire risks as a result of construction issues. The Society is continuing to take a proactive approach to respond to and support these agendas.

Governance and Board matters

The West Brom prides itself on its strong and effective governance that is focused on delivering positive and fair outcomes for all stakeholders. The Financial Reporting Council's annual review of Corporate Governance Reporting published in November 2020 highlighted the need for an improvement in the quality of stakeholder engagement, to ensure their views are actively considered within Board decision making. While the Corporate Governance Code is not itself directed toward organisations such as the West Brom, the Society continues to ensure that input from our stakeholders is considered within our decision making. This commitment is most actively evidenced through the much valued input of both our Member and Employee Councils. How the views from these two bodies, alongside wider stakeholder groups, have been listened to and considered within decisions of the Board are evidenced throughout this report – specifically pages 29 to 31.

Another governance matter that has progressed throughout the year has been the proposed change to the Society's external auditor. Following a planned audit rotation exercise, KPMG LLP rotated off as External Auditor of the Society, having served in this role for some 27 years. On behalf of the Board, I would like to take this opportunity to welcome formally PricewaterhouseCoopers LLP as the Society's new external auditor, following their approval at the Society's AGM in July 2020.

Looking forward

The challenges presented by the pandemic to individuals, families, communities, businesses and society as a whole have been considerable. Challenges which have, in many cases, required responsive and innovative solutions enabled by new and existing technologies. For the Society, this experience has been no different, with new solutions, to new problems, delivered at an unrelenting pace by teams working together toward a common Purpose. As with all aspects of our lives, while it may be impossible to predict the extent to which the changes to how we communicate, work and interact with businesses will alter permanently, the developments made across the last 18 months can't be ignored. Looking forward, the next challenge for the Society will be to find ways to harness the benefits of recent developments to improve and extend the way it delivers on its Purpose for the many generations of members to come.

As I referenced in opening, the Society's performance through the pandemic has been underpinned by the hard work and commitment of the Society's people. The same commitment has helped support the enormous progress the West Brom has made to become a vibrant, well-capitalised, leading independent building society, operating with the financial wellbeing of its members at its core. It is this proven combination of people and Purpose that will support the Society in the future.

In closing, I would like to thank again, on behalf of the Board, all of the Society's colleagues and members for their support through the last 12 months.

John Maltby
Chair
27 May 2021

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

Chief Executive's Review

A Purpose-led performance

I would like to start this report by saying thank you to all colleagues who have supported the delivery of the Society's Purpose to members through the pandemic. As highlighted by John in the Chair's report, it is the extraordinary levels of hard work and commitment shown by the Society's people that have helped deliver a robust performance in a very difficult operating environment.

As I covered in detail in both my report 12 months ago and again at the release of our half year results in November, the exceptional challenges presented by the pandemic have required the Society to operate in a very different way to at any time in its 172 year history. However, for a Purpose-led organisation like the West Brom, while the way in which we operate has had to change fundamentally, supporting the financial wellbeing of members remained our focus.

The backdrop of the pandemic and its economic consequences make the achievements detailed in this report even more satisfying. Services to members have been maintained, lending for home ownership increased, average savings rates paid remained at well above market averages and profitability improved after making increased provisions to reflect the considerable uncertainty around the speed and extent of economic recovery.

Alongside these achievements the Society has continued to receive considerable external recognition for the strength of our mortgage and savings product ranges, for being a responsible business and employer, while also making a considerable contribution to the communities we serve and causes most in need.

The Society's approach to the pandemic has been to deliver against three areas of focus:

- Prioritising the wellbeing of our members, colleagues and communities;
- Ensuring the Society's products, services and premises are safe and accessible; and
- Remaining operationally and financially resilient.

Taken together, the performance across these areas demonstrates how the Society has continued to deliver its Purpose to members through the year. This report will focus on our activities within these areas, with highlights against our longer-term strategic direction and a full review of our financial performance provided in the Strategic Report.

Prioritising the wellbeing of our members, colleagues and communities

At its heart the pandemic is a tragic human crisis, one which has and will continue to affect people and which, despite the success of the vaccination programme, will in all likelihood continue to be a challenge in the next few years as the scientists continue to find solutions to future variants and we all adapt to minimising the spread. This does mean that many of the actions we have taken to protect the wellbeing of our colleagues, members and communities are likely to be required going forward.

For members

From the outset of the pandemic the Society acted quickly to support borrowers whose income had been adversely affected, to defer mortgage payments. Given the enormous level of demand, it was crucial for this process to be as easy as possible, while at the same time providing all necessary information. The Society has continued to work hard throughout the year to ensure this simple online process has remained up to date as new guidance has emerged. In total the Society granted deferrals to some 5,570 borrowers representing 14% of all residential mortgages. Given the significant level of worry that a drop in income and inability to meet payments can cause, it is pleasing to see that 99% of these borrowers have now resumed paying with only 0.5% of all residential lending remaining in a deferral period at 31 March 2021.

For those borrowers who have been unable to recommence payments, the Society continues to apply a compassionate, flexible and fair approach, with all borrower circumstances reviewed individually and support teams able to apply a wide range of measures to help borrowers get back on track. In line with the industry wide moratorium on possessions no repossessions have been made in respect of borrowers who have fallen behind with payments during the pandemic, with the Society committed to only pursuing this action where it is in the interest of borrowers, so as not to erode equity, provided all other reasonable attempts to rectify the position have been explored. In recognising that challenges will continue, and there will regrettably be financial pressures on some borrowing members, the Society became part of the first group of financial organisations to commit to The Code of Best Practice for Debt Collection and Recovery, the aim of which is to ensure that borrowers can feel confident that they will be fully supported should they encounter financial stress.

For many, the impact of the pandemic will have reaffirmed the importance of having an appropriate savings buffer to cover expenses in unforeseen circumstances. With access to savings helping to support financial resilience and financial wellbeing, it is pleasing to see that across the year we have welcomed 4,513 new savers and have been recognised by Moneynet as the best regular savings provider. Aligned to our Purpose, the Society's range of savings accounts offers security of deposit alongside a good rate of return. While the latter has inevitably been challenged by the record low Bank Rate, the Society has continued to pay rates of interest which are on average 41% higher than the equivalent market rate[1], an interest rate benefit of circa £5.3m in monetary terms. Moving forward, the Society remains committed to supporting people to save in order to build financial resilience.

41%

Rewarded savers with rates that were, on average, 41% above those paid by the market (2019/20: 49% above)

With the impacts of the pandemic often felt hardest amongst the most vulnerable, the Society has continued to take proactive action by offering targeted support to vulnerable members, whether that be in how specific circumstances and requests are dealt with, or simply through a phone call to let our most vulnerable members know how the Society can support their individual needs.

For colleagues

As a responsible employer, ensuring the wellbeing of colleagues through the pandemic has remained a top priority. The Society has delivered on all of its commitments by not placing any employees on furlough, making no redundancies as a result of the pandemic and ensuring no reduction in pay despite, in many cases, colleagues working significantly reduced hours to minimise the risk of customers or colleagues coming into contact with the virus.

The Society has continued to support colleagues to cope with the isolating impacts of the pandemic offering a wide range of activities targeted at improving both mental and physical wellbeing. Our programme of virtual wellness classes, led by trained and qualified instructors, has included mindfulness sessions, yoga and high intensity workouts. In total 37 classes have taken place, attended by over 574 colleagues.

I am proud to say that the sum of these efforts has been reflected in our latest staff survey with over 90% of colleagues feeling supported by the Society through the pandemic.

For communities

The Society's commitment to the communities it serves goes well beyond our annual fundraising efforts. While much more detail on our role in local communities is provided by the Corporate Social Responsibility Report, I would like to draw special attention to our 'Big Shop' initiative which, through a targeted range of fundraising activities and significant support from members, helped raise a total of £34,000 for three local foodbanks. The money raised allowed the Society to order stock which was distributed equally to spread vital help to the communities we serve.

Ensuring the Society's products, services and premises are safe and accessible

Given the nature of the public health crisis and the role of building society staff as part of the key worker group, it has been imperative for the Society to ensure its products, services and premises remain safe and accessible through the pandemic. The Society's facilities teams have worked hard to ensure our head office site and our network of 36 branches are COVID-19 secure, and in cases where we have been advised that there may have been a risk of the virus having been present, have immediately treated the affected area or premises to remove the threat.

With our Purpose centred on the promotion of home ownership, we have been determined to support the housing market ever since we entered into the first period of lockdown. This support has seen our new residential lending increase to £784m, a 38% increase year on year, contributing to a 9% increase in owner occupied loans outstanding. This impressive performance has included a notable contribution to first-time buyers, with the Society supporting 2,051 borrowers to purchase their own home during this extraordinary period. Again, allied to our Purpose, this increase in lending has been completed responsibly, with agile changes made to lending policies to reflect changes in borrower risk profiles, with loan to values (LTVs) limited in some instances. By way of comparison, the average LTV across new lending through the last 12 months has reduced to 66% from 76%.

£784m

of new mortgage lending (2019/20: £569m)

In September we became the first lender to adopt the new regulations for modified affordability, which meant we could launch a range of products specifically to enable those borrowers who had found themselves trapped in unnecessarily expensive mortgages due to changes in regulation following the financial crisis over 12 years ago, known as mortgage prisoners, to have a much lower cost option. Despite the estimated number of borrowers held by inactive lenders being around 250,000, many of whom will be classed as mortgage prisoners, we have seen only modest take up, which underlines the need for perhaps even greater public awareness. We will continue to work with others to this end. In our experience, reductions to monthly costs can be in excess of £700.

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

I am proud to say that this steadfast commitment to promoting homeownership through the pandemic has been recognised through two external accolades – for the third year in a row, we earned a top five star rating in the Financial Adviser Service Awards, and being recognised as Best Regional Building Society by Mortgage Finance Gazette. I would like to take this opportunity to thank personally all the Society's intermediary, lending, product and risk teams for their exceptional levels of hard work and commitment to deliver this performance, allowing us to carry an equally strong pipeline of new applications into 2021/22.

Further external recognition as the Best Regional Building Society by Mortgage Finance Gazette and the Best Regular Savings Provider by Moneynet.

Remaining operationally and financially resilient

As highlighted by John's report, through the pandemic the Society has continued to operate as a financially secure and operationally resilient building society. This resilience is a product of a decade long programme to improve risk management capability, reduce legacy balance sheet risk, increase Purpose-led lending, ensure strong levels of capital coverage across exposure classes and to develop operational contingency plans so that when unforeseen events do occur, the Society has the capability to respond. These developments have underpinned our performance through this period of stress and have allowed the Society to continue to lend responsibly in support of the UK housing market and wider economy.

The Society has demonstrated its operational resilience by maintaining access to all essential member services throughout the period, with only a number of changes to operating hours to reflect an understandable reduction in demand for some services during periods of lockdown, as well of course as the determination to manage the risk of the virus spreading through any location. This continuity of service has been supported by the transition to remote working for over 85% of head office colleagues enabled by the enormous work of our IT teams to develop remote working technologies with the number of laptop users increased by over 140%.

In terms of customer outcomes, it is pleasing to see that the shift to a largely remote operating model has not resulted in a deterioration of the outstanding level of service the Society prides itself on, with our Net Promoter Score®[2] (NPS), measuring how likely our members are to recommend us, increased to +76 and customer satisfaction maintained at equally impressive levels (96%).

+76

Net Promoter Score®
(2019/20: +73)

As important as the Society's operational response to the crisis has been the resilience of the financial position, a detailed review of which is included within the Strategic Report. The Society's Liquidity Coverage Ratio has been maintained at over 150% throughout the financial year with a CET 1 ratio of 16.4% reported at 31 March 2021. Both of these measures are reported at levels well above the respective regulatory minimum.

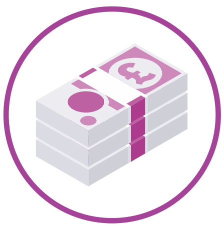
16.4%

Common Equity Tier 1 Capital Ratio
(2019/20: 15.9%)

To allow the Society to grow and invest in its future it remains important that we deliver sustainable levels of profitability. Despite incurring increased costs as a result of the pandemic the Society is able to report a 26% increase in operating profit, which is before provision charges on residential and commercial real estate lending, to £19.6m (2019/20: £15.5m). In extraordinary times such as these, operating profit remains an important indicator of underlying business performance.

As I reported last year, the Society continues to make appropriate provisions to reflect the impact of the pandemic across its lending portfolio. By far the most material of these being provisions to reflect the sensitivity of legacy commercial exposures to changes in the wider economic climate. While associated balances have reduced by 77% from their peak, given the variability in economic outlook, the Society has again taken responsible steps to increase levels of provision cover to 23% of associated balances.

The level of residential provision has also increased to £4.8m (31 March 2020: £2.9m). The increase is driven by the impact of worsening macroeconomic scenarios together with an overlay in respect of the increased risk of default and reduced property values on flats where combustible materials may be present. Once movements in provisions and other items are accounted for, including revaluation gains in respect of the portfolio of investment properties held by the Society in its capacity as a responsible landlord, I am pleased to report an improved level of statutory profit before tax of £4.7m (2019/20: £1.5m) with underlying profit adjusted for one off items and hedge ineffectiveness also increased to £2.4m (2019/20: £1.6m).



£4.7m

Profit before tax
(2019/20: £1.5m)

Engagement through the pandemic

The Society prides itself on the extent to which stakeholder views are considered within the decisions of the Board. Both our Member and Employee Councils have continued to meet virtually and have provided much valued input on Board topics covering our proposed use of the Dormant Accounts Scheme, executive remuneration, the response to COVID-19, support for vulnerable customers, our newly launched Member Commitments and our new savings platform. More insight into how the views of these two bodies have been considered and how input from our wider stakeholder groups is sought is provided on pages 29 to 31 of this report.

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

Our Member Council has continued to provide their valued input on Board topics

Commitment to responsible business

While I have already covered the Society's unwavering focus on colleague wellbeing through the pandemic, I feel it is important to draw attention to three key developments that evidence the Society's long-term commitment to its people.

In May the Society became the first financial services firm to receive accreditation by the Good Business Charter, which seeks to acknowledge and encourage responsible business practice. The Charter covers a range of criteria such as prioritising employee wellbeing, fair tax compliance, care for the environment, and treatment of customers and suppliers. I believe firmly that this accreditation evidences the Society's commitment to being a responsible business that takes the wellbeing of its employees seriously.

Recognised for responsible business practices through accreditation by the Good Business Charter.

In an extension to our commitment to creating a diverse and inclusive workforce in all respects, in October the Society became a signatory of the Race at Work Charter, consisting of five principles to ensure organisations address the barriers to ethnic minority recruitment and progression. To support existing disclosures around the Society's gender pay gap, we will also commit to publishing details of our ethnicity pay gap and the work we are doing to tackle unfair elements of pay disparity where these exist.

Finally, the Society received for the third time a gold accreditation from Investors in People, recognised around the world as the global benchmark for organisations that invest in and manage the development of their people. It was particularly pleasing to see the indicator associated with how our colleagues live the Society's values and behaviours improve from previous assessments, given the work we have done to reinvigorate this framework over the last 18 months.

Outlook

The uncertainties for the economy over the next five years remain considerable. With the remarkable success of the vaccine rollout programme there is now, I believe, cause for at least a level of short-term optimism as families meet, businesses reopen and life begins, cautiously, to return to a new version of normal. However, it is likely that this new normal will include learning to live with the virus in terms of new variants which may cause some future interruptions to the economy as further development of vaccines is required and maybe some form of local restrictions on movement from time to time.

As this transition out of lockdown progresses, it is perhaps inevitable that increases in unemployment are expected as government support schemes unwind and businesses adapt to new ways of operating. The Society stands ready to support any borrowers affected by a drop in income as it has done throughout the pandemic.

In terms of interest rates, while the prospect of negative rates seems to be cooling somewhat, given the enormous levels of government borrowing through the pandemic, the period of ultra-low rates looks set to continue, subject of course to any unforeseen economic conditions arising out of the actions taken to manage the economy throughout the pandemic. While this environment will present all too familiar challenges for savers, the Society will continue to develop its proposition to support people to save and to build financial resilience. This includes the development of our new online savings platform which will help support and grow the next generation of savers.

The resilience demonstrated by the Society through the pandemic is testament to the developments made over the last decade to become the Purpose-led building society we are today. A journey that has been guided by the significant contribution made by our outgoing Chair Mark Nicholls who, due to unexpected personal circumstances, made the decision to retire early in March 2021. I would like to thank Mark, on behalf of all my colleagues, for his contribution and for the unwavering support and guidance provided to myself and the Board. I would also like to take this opportunity to welcome the Society's new Chair, John Maltby. I know John is committed to continuing our development as an independent Purpose-led building society.

While the pandemic has taught us all many new lessons, it has also acted to reinforce the fundamental importance and value of the Society's proposition to members. Never has it been so important to have a place to call home or a level of savings to guard against unforeseen circumstances. Fundamental needs with an integral link to our financial wellbeing that will remain as relevant tomorrow as they do today.

As I said in opening, the performance the Society has delivered over the last 12 months is one that we can all take pride in – colleagues and members alike. Never in the Society's 172 year history have its people been challenged to deliver on its Purpose to members in such extraordinary circumstances. It is this combination of Purpose and people that will remain fundamental to the continued success of the Society as we look to grow and invest for generations to come.

In closing I would like to thank, on behalf of all Society colleagues, all of our members for their continued support through the last 12 months.

Jonathan Westhoff
Chief Executive
27 May 2021

Strategic Report

Our strategy

Our strategy continues to focus on the simple delivery of 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 Purpose guides the development of our business model, primary activities and strategic priorities.

The Society delivers saving, investment, mortgage and insurance products through its 36 branches, customer service teams and online services and intermediary partnerships. Our broad range of savings and investment products offer simplicity of terms, security of deposit, and a good rate of return. Providing residential mortgages, funded in the main by member deposits, remains firmly allied to our mutual model.

Our strategy recognises the importance of the UK housing market to the wider economy and society as a whole. The Society seeks to meet the home ownership ambitions of both current and future members and continues to develop its mortgage product range to cater for individual borrower needs.

The Society also holds, via its property investment subsidiary West Bromwich Homes Limited, a portfolio of residential properties. These generate rental income and provide quality homes for those in the rented sector.

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

The Society continues to make long-term strategic investments to develop its systems to ensure the products and services it offers meet the needs and expectations of both current and future members, while also remaining operationally resilient.

Our business model

The Society's business model is aligned to its Purpose and strategic objectives. The diagram below sets out the aspects of the business model which are key to delivery of our Purpose - supporting the financial wellbeing of members.

Our Funding:

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

- Savers deposits
- Wholesale funding

Our Profits:

We use the difference in our income and our costs to deliver value through our products and services as well as investing in the future of the Society. We do this while ensuring we remain both financially and operationally resilient.

- Value through our products
- Maintaining safe levels of capital
- Investment in our systems, products and ongoing operational resilience capabilities

Our Lending:

Our funding is used to support our lending activities. The vast majority of which is residential, lending to home owners and borrowers supporting the private rented sector. A relatively small proportion of our funding continues to support our legacy lending books which are in run-off.

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

Our Income:

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

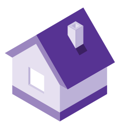
- Net interest margin
- Other income
- Role as a responsible landlord

Our Costs:

We use our income to run the business efficiently, paying our people, our suppliers, maintaining our branch network and head office. We also provide for any losses and pay our taxes.

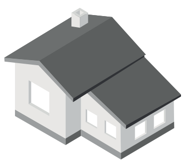
- Our people, property and equipment
- Our suppliers
- Provisions for bad debts
- Taxes

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



Retail - savings, mortgage, investment and insurance products offered through our 36 branches, customer services teams and online, with new mortgage lending also delivered through our intermediary partners.

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



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

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

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

Our Strategic Framework

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

Our Purpose

Supporting the financial wellbeing of our members by providing a safe and good return on their savings and promoting home ownership through responsible lending.

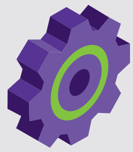
Our Strategic Intent

Customer

'Developing products & services that support the principles of our Customer Proposition - individual, ease and trust'.

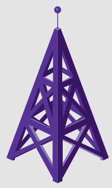
Safe & Responsible

'Understanding the risks we take and making responsible decisions that generate sustainable levels of retained profit'.



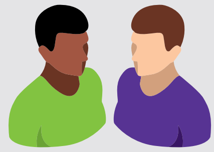
Efficient

'Driving efficiencies in our processes and structures to improve the customer experience and level of member value'.



Future Ready

'Investing in and delivering the change required to meet the needs of current and future members'.



People

'Investing in the development of our people and creating a diverse and inclusive working environment to improve our organisational capacity'.

How we are progressing

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

Customer

- Welcomed 6,257 new borrowers, including 2,051 first-time home owners and 4,513 new savers to the Society.
- Extended £784m in new residential lending, with a 9% increase in owner occupied balances.
- Provided consistently outstanding service with our Net Promoter score®[1] increased to +76 and Customer Satisfaction maintained at 96%.
- Rewarded savers by paying rates that are, on average, 41% higher than the rest of the market[2] representing a total of £5.3m additional interest in monetary terms.
- Defined and launched our Member Commitments, a set of seven promises that form the basis of our member offering.
- Continued with the development of our mortgage proposition by introducing new products and criteria targeted at supporting individual borrower segments. This included becoming the first mortgage lender to offer support for mortgage prisoners through implementation of new affordability rules.
- Awarded, for the third year in a row, a Five Star Service Award for the exceptional service we provide to our valued intermediary partners.
- Recognised as the Best Regional Building Society by Mortgage Finance Gazette and the Best Regular Savings Provider by Moneynet.
- Held a further three virtual meetings of our Member Council providing valued input to Board decision making covering proposed use of the Dormant Accounts Scheme, Executive Remuneration, the Society's response to COVID-19, support for vulnerable customers, Member Commitments and our new savings platform.

Safe & Responsible

- Maintained our financial strength with a CET 1 capital ratio of 16.4% (2019/20: 15.9%).
- Delivered improved statutory and underlying profit before tax of £4.7m (2019/20: £1.5m) and £2.4m (2019/20: £1.6m) respectively, with an increase in operating profit before provisions of 26%.
- Provided an additional £18.8m across our residential and commercial lending portfolios which includes additional coverage in respect of the ongoing impact of the pandemic.
- Reduced legacy commercial exposures by 77% since 2008/09 while increasing provision coverage to 23.1% (2019/20: 19.6%).
- Maintained arrears rates at levels well below industry averages with core residential arrears at 0.43% (UK Finance: 0.85%) at 31 March 2021.
- Balanced the interests of borrowers and savers by holding our net interest margin at a sustainable level, investing for the future while maintaining a robust capital position.
- Demonstrated operational resilience through the pandemic by continuing to provide all essential services to members.
- Obtained the Crystal Mark accreditation for the clarity of our General Terms and Conditions.
- Charitable fundraising during the year raised £34,000 which has been used to support three foodbanks during the pandemic.

[1] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.
[2] Average market rates sourced from Bank of England Bankstats table A6.1

Efficient

- Remained disciplined in our cost management effort with our overall management expense ratio maintained at 0.83% despite considerable costs being incurred in our response to the pandemic.
- Continued to review our cost structures to ensure these remain aligned with our strategy. Redirecting cost savings into investment in our systems to ensure these remain resilient while meeting the needs and expectations of current and future members.
- Introduced a number of self-service options to improve the ease with which customers can do business with us through the pandemic and increase operational capacity.

Future Ready

- Continued to meet key delivery milestones across our transformation programme, including those for the launch of our new online savings platform.
- Progressed changes to our IT infrastructure to ensure the Society is able to adapt to the rapid advances in technology while remaining agile, cost efficient and operationally resilient.
- Committed to reducing our carbon footprint by setting ambitious environmental targets across our physical estate.

People

- Launched and embedded our new Society Values that define how we go about what we do and what it means to be part of the West Brom.
- Made clear our commitment on diversity and inclusion by signing up to the Race at Work Charter.
- Recognised for our commitment to our people by retaining our Gold standard accreditation from Investors in People.
- Recognised formally as a responsible, caring business and employer by becoming the first financial services organisation to receive an official accreditation by the Good Business Charter.
- Maintained levels of female representation at Board and senior management levels.
- Held a further three virtual meetings of our Employee Council providing valued input to Board decision making covering our staff survey and the people response to COVID-19, in addition to a number of the items discussed by the Member Council.
- Held 12 meetings of our diversity and inclusivity group 'Connect'.
- Invested in professional qualifications for a further 28 of our colleagues.
- Supported four colleagues' study for a Masters in Strategic Leadership in conjunction with Loughborough University and the Building Societies Association.
- Delivered a targeted programme of support for colleagues through the pandemic with over 90% feeling supported by the Society through this difficult period.

Our Key Performance Indicators have been aligned to the key elements of our Strategic Framework.

Key performance indicators

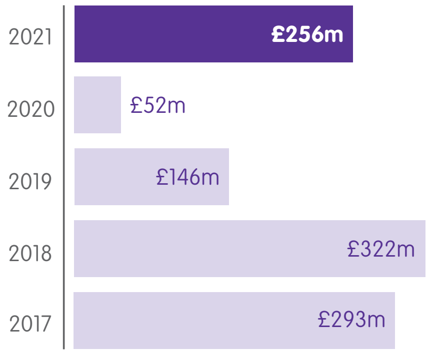
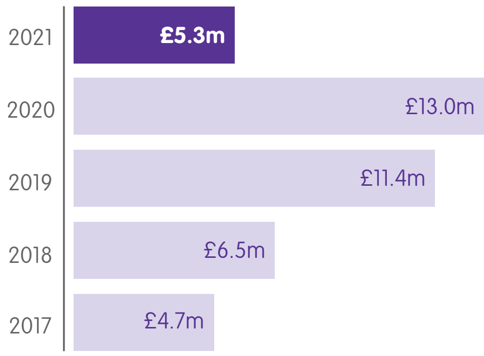
The Society monitors and assesses its performance against strategic objectives using a range of financial and non-financial key performance indicators (KPIs). The Society's KPIs are selected to support the Society's strategic pillars which are, 'Customer', 'Safe & Responsible', 'Efficient', 'Future Ready' and 'People'. These KPIs, and the Society's performance against each, are described below. KPIs for our Future Ready pillar are currently only used internally to measure performance against the application of digital technology.

Customer

Key performance indicator	Measure	Performance	2021 analysis
Customer satisfaction	Following a branch visit or call to our Customer Services department, members are asked to rate us across a number of different measures, including how easy they found the West Brom to deal with. A customer satisfaction score is subsequently captured.	2021: **96%** 2020: 96% 2019: 94% 2018: 94% 2017: 93%	The Society continues to achieve high levels of customer satisfaction scores, a reflection of our customer centric approach.
Net Promoter Score® (NPS®)[1] – customer satisfaction	A measure of how likely a customer is to recommend the West Brom's products and services. First used by the Society in 2017/18, the NPS ranges between -100 and +100.	2021: **+76** 2020: +73 2019: +72 2018: +65 2017: N/A	Our positive and improving Net Promoter Score shows that our high service standards continue to be recognised by our membership even during the pandemic.
Gross residential lending	Delivering the Society's core Purpose of home ownership, this is the value of residential lending advanced this year.	2021: **£784m** 2020: £569m 2019: £691m 2018: £837m 2017: £712m	Gross residential lending has increased reflecting the buoyant mortgage market. The Society ended the year surpassing £1.2bn in mortgage applications despite a fall in market activity in the first two months of the year due to the initial lockdown. We remain committed to supporting responsible lending that delivers an appropriate level of return from our competitive purchase and remortgage products.

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

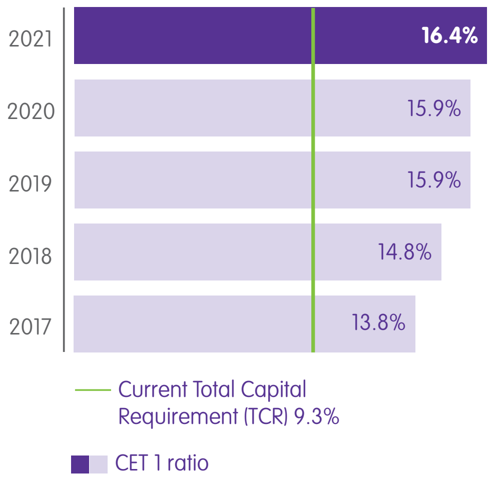
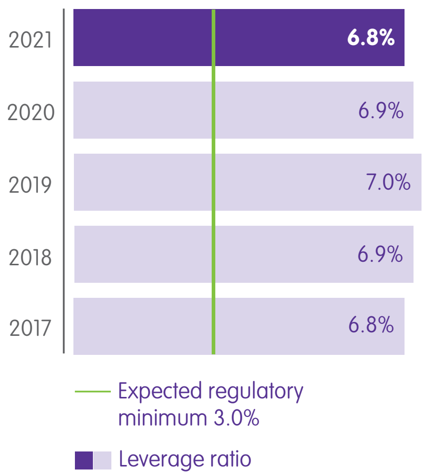
Customer (continued)

Key performance indicator	Measure	Performance	2021 analysis
Net owner occupied lending	Gross residential owner occupied lending less repayments of principal and redemptions. This includes all owner occupied lending, including non-traditional elements (e.g. Shared ownership, Help to Buy, Self-Build and Assisted mortgages) and excludes buy to let lending. This measure reflects growth in the owner occupied lending book and reflects both new lending and customer retention.		Since re-entering the prime owner occupied residential lending market in 2012, the lending balances in this area have grown by 133%. The improved position in 2021 reflects the increase in gross lending and improved retention levels.
Member mutual benefit	The Society's average savings rate above the rest of the market is paid in mutual benefit to our savings members.		We continue to face the challenge of the ultra-low Bank Rate environment. We have continued to help our savers by paying rates 41% above the market average[2], enabling the Society to pay £5.3m in mutual benefit to our members.

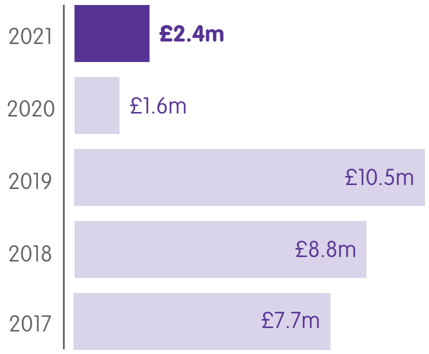
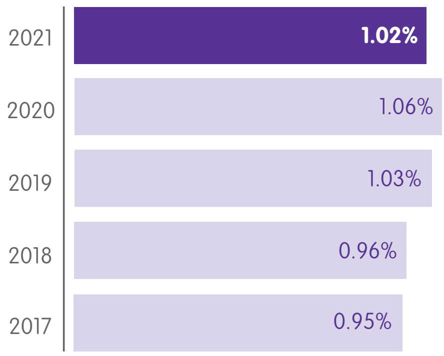
[2] Average market rates sourced from Bank of England Bankstats table A6.1

Key performance indicators (continued)

Safe & Responsible

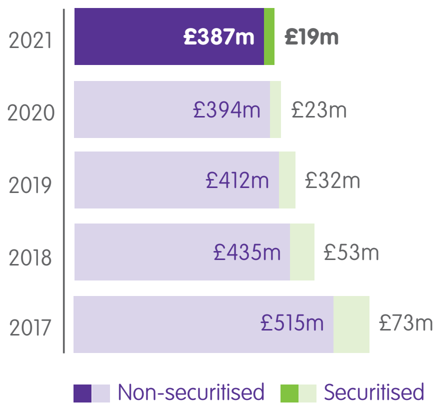
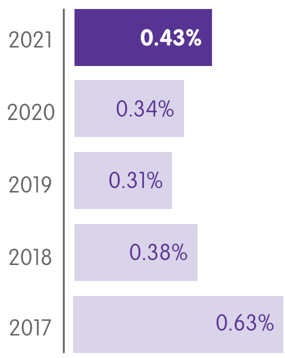
Key performance indicator	Measure	Performance	2021 analysis
Common Equity Tier 1 (CET 1) ratio	Common Equity Tier 1 (CET 1) capital is the highest quality form of capital for a financial institution, comprising retained earnings, other reserves and qualifying CET 1 capital instruments. The CET 1 ratio, calculated as CET 1 capital divided by risk-weighted assets, is a measure of financial strength and is required to be maintained above a regulatory threshold.		CET 1 capital strengthened during the year, as a result of improved profit generation and a reduction in risk-weighted assets. The CET 1 ratio was maintained comfortably in excess of our regulatory Total Capital Requirement (TCR) throughout the year.
Leverage ratio	Measured as Tier 1 capital divided by total leverage exposure, the leverage ratio provides another capital strength performance indicator which is held above the expected regulatory minimum.		At 6.8%, the leverage ratio is stable, remains significantly above the regulatory threshold and compares favourably with the sector.

Safe & Responsible (continued)

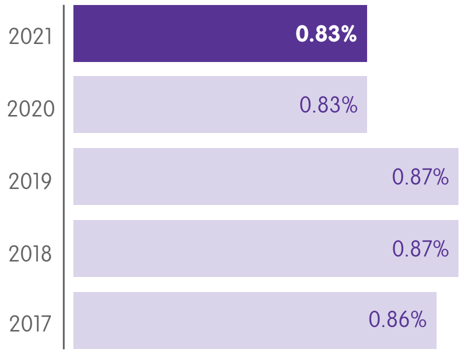
Key performance indicator	Measure	Performance	2021 analysis
Underlying profit before tax	Underlying profit before tax excludes the impact of one-off items being the gain on deconsolidation of securitisation entities, the write down of goodwill and hedge ineffectiveness. A reconciliation of statutory to underlying profit is presented on page 20. In 2016/17, underlying profit before tax excluded the effect of additional interest charged and subsequently reimbursed on certain buy to let mortgages. Profit contributes to capital which provides financial resilience and facilitates future growth and investment.		Underlying profit before tax increased in the year, with the prior year primarily impacted as a result of increased impairment provisions that were recorded for uncertainties caused by COVID-19. The Group's operations remain highly profitable with operating profit of £19.6m (2019/20: £15.5m), a growth of 26%. This drove a statutory profit before tax of £4.7m (2019/20: £1.5m).
Net interest margin	Net interest margin is calculated as net interest income expressed as a percentage of mean total assets. The drivers of this measure are the level of return received from assets held and the interest paid on borrowings.		Net interest margin reduced in the year. Asset yields improved relative to Bank Rate; this was offset by relatively higher retail costs of funding. Bank Rate reductions towards the end of the last financial year also led to a reduction in earnings on free capital. Additional availability of low cost non-retail funding via various Bank of England schemes contributed positively to the margin. As a mutual, it is not our objective to maximise margin but to manage interest income at a level that covers costs, enables investment in the future and maintains a strong capital position.

Key performance indicators (continued)

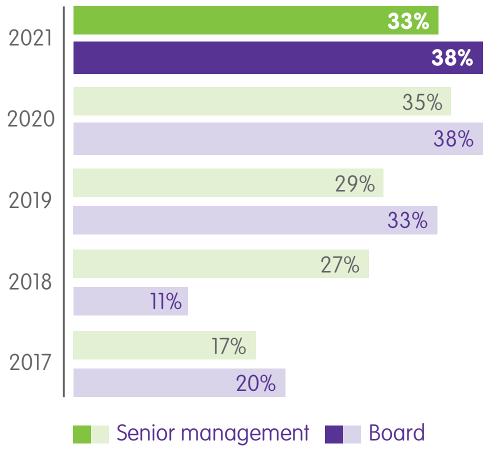
Safe & Responsible (continued)

Key performance indicator	Measure	Performance	2021 analysis
Exiting non-core positions	Exiting the commercial real estate sector has been a longstanding strategy of the Board and is measured by the reduction in the gross carrying value of non-core commercial gross exposures, which totalled £1.7bn in 2008/09.		Non-core commercial mortgage balances have continued to reduce annually, down 3% in the year to £406m at 31 March 2021. Of the remaining exposure, £19m is securitised thereby transferring the residual risk out of the Group.
Core residential arrears	The internal measure, reported to the Board, is the number of cases where the borrower has missed more than three monthly payments, as a proportion of the total number of loans.		Core residential arrears stood at 0.43% at 31 March, which compares favourably against the published UK Finance average of 0.85%. The increase in arrears is primarily attributable to the buy to let portfolio where we have deferred the appointment of Law of Property Act Receivers (LPAR) during the pandemic. An increase in arrears is expected as the employment markets begin to anticipate the unwind of pandemic support mechanisms. The Society has offered payment deferrals to impacted borrowers and will continue to provide support to borrowers as these draw to an end.

Efficient

Key performance indicator	Measure	Performance	2021 analysis
Cost efficiency	The management expense ratio is a measure of cost efficiency, reflecting costs (including depreciation and amortisation) as a percentage of mean total assets.		The management expenses ratio is stable at 0.83%. There has been a 2.4% increase in management expenses offset by a growth in mean total assets. Depreciation has increased marginally year on year. The growth in total costs includes the impact of continued investment in our IT infrastructure and costs associated with maintaining a safe working environment for employees and members during the pandemic. Over the last four years costs excluding depreciation reduced by circa 11%.

People

Key performance indicator	Measure	Performance	2021 analysis
Gender diversity	The Society is a signatory to the Women in Finance Charter and has targets to maintain for female representation of at least 30% on the Board and in senior management.		The 30% target for female representation has once again been exceeded at both Board and senior management levels.

Financial review

Financial performance

Summary income statement

Year to 31 March Income Statement overview

	Group 2021 £m	Group 2020 £m
Net interest income	**57.7**	59.1
Fees, commissions and other income	**5.7**	6.3
Fair value gains/(losses) on financial instruments	**3.4**	(8.5)
Gain on deconsolidation of commercial securitisations	**-**	5.3
Write down of goodwill	**-**	(0.5)
Total income	**66.8**	61.7
Management expenses	**(47.2)**	(46.2)
Operating profit	**19.6**	15.5
Gains on investment properties	**4.0**	4.2
Impairment on loans and advances	**(18.8)**	(17.5)
Provisions for liabilities	**(0.1)**	(0.7)
Profit before tax	**4.7**	1.5
Taxation	**0.4**	-
Profit for the financial year	**5.1**	1.5

**Fair value gains/(losses) include fair value losses on derivatives used to hedge commercial loans of £1.4m (2019/20: £4.0m), included within the amounts presented in note 5 to the accounts.*

Statutory profit before tax increased to £4.7m in 2021 (2019/20: £1.5m), representing a strong performance in a challenging year as the impact of the pandemic continued to be felt. The Group's operating profit, which shows profit before impairments, remained strong at £19.6m supported by strong asset growth, fair value gains on financial instruments and continued focus on cost efficiencies.

In the prior year, significant additional impairment provisions were recorded and these have increased further this year. These principally related to the legacy commercial portfolio, which includes exposures to the retail, healthcare and leisure sectors. The increased provision coverage across the portfolio reflects the ongoing impact of COVID-19 restrictions and changing consumer behaviours which have resulted in a more pessimistic view of these segments with additional overlays to cover for the continued uncertainty in the macroeconomic outlook.

Impairment charges have also increased in the residential portfolio as a result of refinements to assumptions used in the Expected Credit Loss (ECL) calculations, including additional overlays recorded and the updates to macroeconomic scenarios. A year on year comparison of underlying profit before tax is shown in the summary below. In 2019/20, underlying profit was calculated after adjusting for certain transactions including a de-consolidation gain and goodwill impairment, which have not recurred in 2021, and hedge ineffectiveness.

The improved profitability in the year was also driven by reduced fair value losses on financial instruments as explained below.

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

	2021 £m	2020 £m
Statutory profit before tax	**4.7**	1.5
Gain on deconsolidation of commercial securitisations	**-**	(5.3)
Goodwill impairment	**-**	0.5
Hedge ineffectiveness	**(2.3)**	4.9
Underlying profit before tax	**2.4**	1.6

Net interest income

Net interest income of £57.7m reduced in the year (2019/20: £59.1m), with the net interest margin reducing to 1.02% (2019/20: 1.06%). With Bank Rate held at an all-time low of 0.10% throughout the year, the improvement in asset yield relative to Bank Rate, growth in residential balances and reduced non-retail cost of funding explained below were offset by higher retail costs of funding relative to Bank Rate and lower earnings on free capital.

The Society has remained committed to supporting its members by continuing to pay rates above the market average. For the 12 months to 31 March 2021, we paid our savers 0.14% above the market average[1] (31 March 2020 0.33%). This represents a considerable £5.3m (2019/20: £13.0m) provided in mutual benefit to savers.

Through the introduction of government measures to mitigate the economic impact of the pandemic, the Society has benefitted from low cost funding, in particular from the Bank of England's Term Funding Scheme for Small and Medium-sized Enterprises (TFSME).

Fees, commissions and other income

The Society partners with a number of providers to offer home insurance, financial advice, will writing, life cover and funeral planning. Fees and commissions of £2.0m (2019/20: £2.3m) were earned on these products and services, which are made available to support our members' wider financial wellbeing. Income on general insurance policies has reduced in the year, primarily due to the lower footfall in our branches where most of these products are generally sold.

In its capacity as a responsible landlord, the Group earned net rental income of £3.8m (2019/20: £4.0m) on residential properties let through the subsidiary company, West Bromwich Homes Limited (WBHL).

Fair value losses on financial instruments

The Society is exposed to income statement volatility through changes in the fair value of financial assets and liabilities which are held at fair value through profit or loss (FVTPL).

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

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

Of the £3.4m fair value gains (2019/20: £8.5m losses) in the year:

- £0.2m losses (2019/20: £0.1m losses) relates to the closed equity release portfolio. The market outlook on the house price index (HPI) incorporated into the model assumptions during the year increased the fair value losses compared to the prior year.
- £1.4m gains (2019/20: £4.0m losses) represents fair value movements on derivatives held to provide an economic hedge against movements in impaired commercial provisions for which the criteria to apply hedge accounting are not met. The volatility arises from changes in the market view of interest rates and is largely offset within impairment on commercial loans and advances because of the impact of discounting future cashflows at market rates. For example, where interest rates increase, ECL will increase owing to greater discounting of future cashflows. Equally, where interest rates increase, we would see a fair value gain on our swap offsetting the increase in ECL.
- The balance relates to the element of ineffectiveness in the hedge relationships which still meet hedge effectiveness criteria and fair value movements on interest rate swaps held to hedge the Society's mortgage pipeline, before an effective hedge relationship can be established.

Management expenses

Management expenses have increased from £46.2m in 2019/20 to £47.2m. The management expense ratio remained stable at 0.83% (2019/20: 0.83%). Excluding depreciation, management expenses have increased by 2.4% which includes costs associated with our response to the pandemic explained below.

Through our ongoing Cost Efficiency Programme, we continue to maximise our efforts towards reducing our overall cost base such that over four years management expenses, excluding depreciation, have reduced by £5m (circa 11%) in absolute terms, after absorbing inflation and pay award increases.

The Society's development of digital solutions for its members has seen ongoing costs in relation to IT investment. These continued into this year as we progress to remain ahead of technological change. Depreciation costs have increased slightly from £8.0m to £8.1m (of which £0.5m relates to depreciation of right-of-use assets under IFRS 16).

Further costs have been incurred as a result of our response to the pandemic, where we have built in robust measures and solutions across the head office and branch network, to enable a safe environment for the Society's employees and members. This also included costs to successfully roll out home working for the majority of our employees during the first national lockdown.

Gains on investment properties

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

House price inflation has been positive in the year to March 2021, with strong growth in the second half of the year driven by pent up demand and the stamp duty payment holiday. During the year, the market value of the properties held rose by £4.0m compared with £4.2m in the previous year.

Impairment on loans and advances

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

Year to 31 March Impairment on loans and advances

	2021 £m	2020 £m
Other residential loans	**4.8**	2.9
Commercial loans	**14.0**	14.6
Total impairment	**18.8**	17.5
Fair value movement on derivatives held to hedge impaired commercial loans	**(1.4)**	4.0
Total impairment and related charges	**17.4**	21.5

Residential impairment

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

The residential impairment charge for the year increased to £4.8m (2019/20: £2.9m). From the onset of the COVID-19 pandemic, there has been uncertainty regarding the economic impact of the pandemic. The government's range of support measures, including the furlough scheme and offering of payment deferrals, has dampened the impact on arrears levels. However, the impact to unemployment as these come to an end is likely to create a knock on impact on arrears levels and therefore credit losses. In early 2021, UK unemployment levels were at their highest in almost five years. In contrast, UK HPI has continued to grow, attributed to strong demand. These forecasts do show signs of slowing which has been incorporated in our IFRS 9 economic assumptions.

The uncertainty is reflected through the use of a number of post model adjustments or overlays. The most significant overlay (£1.3m at 31 March 2021 (2019/20: £nil)) relates to heightened risk of default and reducing property values on flats where combustible material, including combustible cladding, may be present. Further detail is provided in note 1 to the accounts.

Commercial impairment

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

Commercial impairment charges reduced in the year from £14.6m in 2019/20 to £14.0m. After adjusting for the offsetting movements in derivatives held to hedge the impact of changes in interest rates on the impaired loans the net charges were £12.6m and £18.6m for the current and prior year respectively.

Commercial provision balances at £91.9m (2019/20: £81.8m), represent 23.1% of the current loan book (2019/20: 19.6%).

As previously commented upon, the commercial property sector is especially vulnerable to economic uncertainty. The retail sector in particular, has continued to be exposed to the impact of such unpredictability. The national lockdowns enforced by the government have put pressure on 'non-essential' retail, leisure and hotel sectors to temporarily close their doors to reduce the spread of COVID-19. The majority of the Group's commercial portfolio comprises loans to the retail sector, which naturally drives most of the commercial impairment charge. Note 33(c)(iii) to the accounts further analyses the commercial portfolio by industry type.

The commercial provision charge during the year represents the application of sector specific assumptions and includes an overlay in respect of economic uncertainty.

At 31 March 2021, 59% (2019/20: 58%) of non-core commercial balances were managed by a LPAR, appointed to assist in the management of future cash flows and debt recovery.

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

Provisions for liabilities

There has been a charge of £0.1m in the current year for provisions for liabilities (2019/20: £0.7m). The prior year charge was a result of the surge in PPI complaints in the lead up to the August 2019 deadline. The current PPI provision is now in run off as existing claims are awaiting settlement.

Taxation

There is a corporation tax credit of £0.4m for the year (2019/20: nil). This is as a result of utilisation of brought forward tax losses and the recognition of deferred tax assets, based on amounts expected to be recoverable against future taxable profits.

The Society fully complies with HMRC's Code of Practice on Taxation for Banks and has controls in place to ensure it maintains appropriate tax accounting arrangements, with oversight provided by the Audit Committee and the Board. The Society maintains an open, honest and transparent relationship with HMRC, engaging with the tax authority, where applicable, to mitigate any uncertainty arising in relation to tax planning or compliance matters. The Society's tax strategy has been published on its website.

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

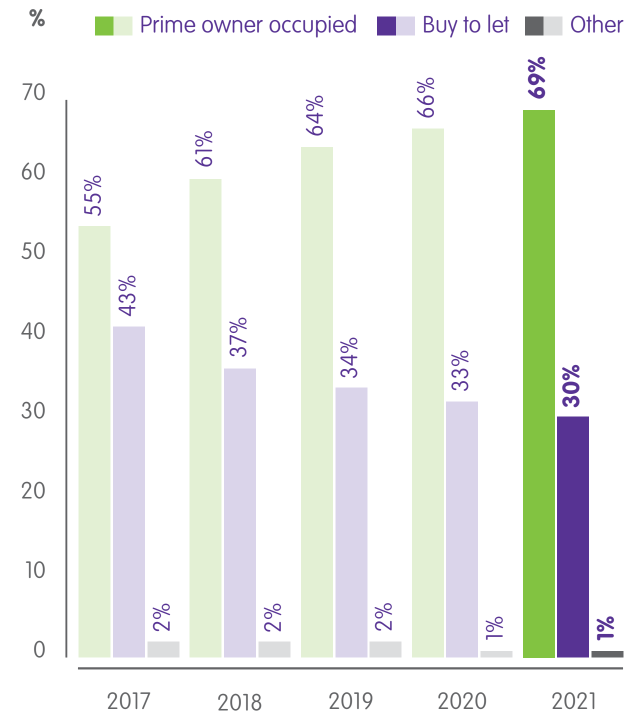
Financial position

Summary statement of financial position

At 31 March	**Group 2021 £m**	Group 2020 £m
Assets		
Residential loans and advances	**4,545.9**	4,356.2
Commercial loans and advances	**306.4**	335.4
Liquid assets	**700.3**	672.4
Derivative financial instruments	**6.5**	4.5
Fixed and other assets	**209.4**	208.3
Total assets	**5,768.5**	5,576.8
Liabilities		
Shares	**4,234.1**	3,846.1
Wholesale funding	**1,046.7**	1,230.7
Derivative financial instruments	**40.5**	54.2
Other liabilities	**57.3**	62.0
Total liabilities	**5,378.6**	5,193.0
Equity		
General reserves	**250.7**	246.5
Other equity instruments	**134.8**	135.9
Other reserves	**4.4**	1.4
Total equity	**389.9**	383.8
Total liabilities and equity	**5,768.5**	5,576.8

Residential loans and advances

Analysis by lending type at 31 March 2021



Total residential loans and advances increased by 4.4% in the year. New prime residential lending undertaken in the year increased by 38% to £784m (2019/20: £569m) in a year which also saw applications for new lending surpass £1.2bn, a level not seen since 2017/18. Despite an initial slowdown in market activity due to the first national lockdown, once restrictions were eased, there was a strong resumption in activity. The income support mechanisms, pent up demand for house moves and the Stamp Duty Land Tax concession fuelled buoyant demand in the latter part of the year. From an operational perspective, the Society responded well to the significant increase in applications and remained within its strong pre-pandemic Service Level Agreements (SLAs). The government support measures have helped to maintain market momentum, with a potential for market activity to decrease once these come to an end.

The Society has been able to offer competitive purchase and remortgage products in line with its responsible lending policies. During the year we became the first lender to introduce a modified affordability product to help mortgage prisoners. We are pleased with our efforts to raise public awareness of the issue and, although take-up to date has been modest, we remain committed to working with others to continue to do so.

The Society has committed to lend responsibly to its customers, and has reduced higher loan to value lending until the outlook on the economy is better understood. The strategy aims to seek balance between helping borrowers with low deposits into home ownership and exposing the same borrowers, and the Society, to the potential impact of being unable to meet mortgage obligations and potentially moving into 'negative equity'.

The composition of the residential book remains consistent with the Board's strategy of rebalancing the mortgage portfolio by increasing the proportion of prime owner occupied loans. The legacy buy to let portfolio reduced to 30% of the total residential book compared to 33% in the prior year.

The Society supported a further 1,361 first-time buyers to become home owners, which represented 33% (2019/20: 50%) of all new borrowers in the year.

At 31 March Residential loans analysis by region

	2021 %	2020 %
East Anglia	**2.6**	2.7
East Midlands	**10.5**	10.4
Greater London	**10.8**	11.0
Northern Ireland	**0.1**	0.1
North	**4.3**	4.3
North West	**12.7**	12.3
Scotland	**1.8**	2.1
South East	**17.3**	16.6
South West	**8.5**	8.4
Wales	**5.0**	5.1
West Midlands	**15.9**	16.7
Yorkshire	**10.5**	10.3
Total	**100.0**	100.0

The Society's mortgage offerings are available through online and intermediary distribution channels, to ensure accessibility across the United Kingdom. The lending portfolio is geographically diverse, with prominence in the West Midlands where most of the Society's branch network is based. Whilst significant proportions of lending are to the South East and Greater London, the proportion remains reflective of the UK mortgage market.

At 31 March 2021 Group arrears

	Total balances £m	**3 months+ %**
Prime owner occupied	**3,118.6**	**0.36**
Buy to let	**1,373.1**	**0.52**
Other	**40.6**	**3.51**
Core residential	**4,532.3**	**0.43**
Second charge lending	**9.0**	**13.21**
Total residential	**4,541.3**	**0.61**

At 31 March 2020 Group arrears

	Total balances £m	3 months+ %
Prime owner occupied	2,857.7	0.33
Buy to let	1,422.9	0.28
Other	45.7	2.79
Core residential	4,326.3	0.34
Second charge lending	10.3	11.11
Total residential	4,336.6	0.50

Group arrears are measured as the number of cases where a borrower has missed more than three monthly payments as a proportion of the total number of loans. At 31 March 2021, Group arrears for the core residential book stood at 0.43%, (31 March 2020: 0.34%). The increase in arrears is primarily attributable to the buy to let portfolio where the appointment of LPARs has been deferred during the pandemic. Group arrears continue to compare favourably against the UK Finance average of 0.85% (2019/20: 0.74%).

Throughout the pandemic, the Society has supported borrowers who have faced unexpected periods of unemployment with a flexible and fair approach to forbearance options. With increased levels of unemployment observed this year, the Society's conservative lending policy and effective credit management practices have ensured that arrears levels remain relatively low.

Commercial loans and advances

At 31 March Commercial loan portfolio

	2021 £m	2020 £m
Non-core commercial balances excluding securitisation	**379.7**	394.5
Securitised commercial balances	**18.6**	22.7
Impairment provisions	**(91.9)**	(81.8)
	306.4	335.4

The non-core commercial loan book has continued to reduce in line with the Board's long-term strategy of exiting from the commercial property sector. The commercial loan book is included within loans fully secured on land (FSOL) in note 13. Balances reduced by a further 5% from £417.2m to £398.3m, of which £18.6m (2019/20: £22.7m) is held within structured entities, where there is no residual risk exposure for the Group. Non-core commercial exposures have reduced to just 23% (2019/20: 25%) of their peak position in 2008/09 at £1.7bn, which represents a material shift in the de-risking of the balance sheet.

Liquid assets

At 31 March 2021 Liquidity portfolio

	£m	%
Cash and balances with the Bank of England	**316.5**	**45.2**
Supranationals	**87.1**	**12.5**
Covered bonds	**120.1**	**17.1**
Mortgage backed securities	**69.2**	**9.9**
Subsidiary/other liquidity	**107.4**	**15.3**
Total liquidity	**700.3**	**100.0**

At 31 March 2020 Liquidity portfolio

	£m	%
Cash and balances with the Bank of England	263.5	39.2
Supranationals	55.5	8.3
Covered bonds	149.4	22.2
Mortgage backed securities	80.4	12.0
Subsidiary/other liquidity	123.6	18.3
Total liquidity	672.4	100.0

The Society's financial and lending obligations are fulfilled by holding high quality liquid assets. Liquidity was maintained at sufficient levels throughout the year to cover operational cash commitments, in excess of regulatory and Board limits.

The liquidity portfolio yields modest returns relative to the cost of raising funds. The Society therefore holds off-balance sheet liquidity, which can be readily converted to cash, where such funding arrangements are available at a lower cost.

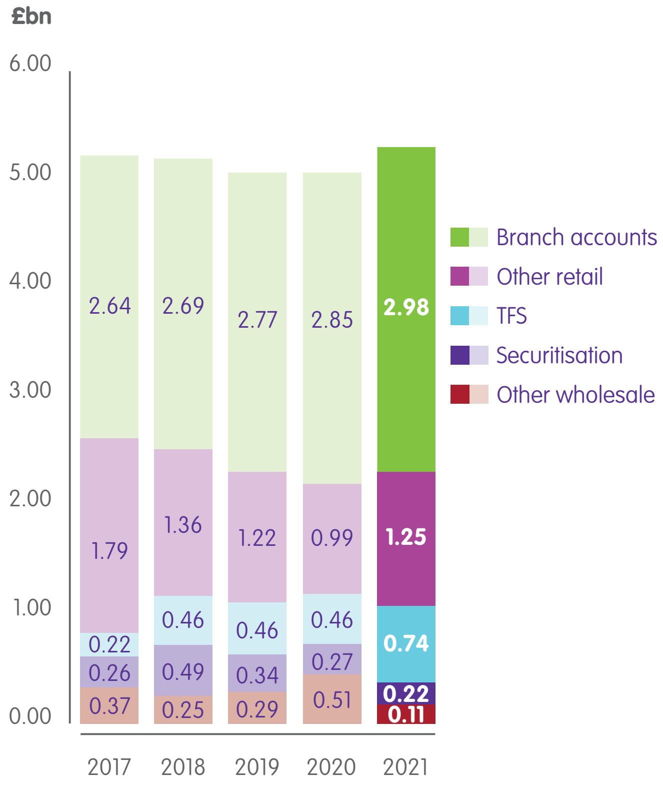
Liquidity holdings comprise high quality liquid assets, with treasury investment securities rated at least single A or held with a Globally Systemically Important Counterparty. The Group has never experienced a default on its Treasury investment portfolio. The liquid asset impairment provision requirements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

The Society's Liquidity Coverage Ratio (LCR), which measures its ability to meet cash outflows in the event of a stressed scenario, was 180% at 31 March 2021 (2019/20: 188%), comfortably above the regulatory minimum of 100%.

The Net Stable Funding Ratio (NSFR) measures the proportion of available stable funding to the required amount of stable funding, representing a longer-term liquidity indicator than the LCR. Based on the Society's interpretation of the requirements, the NSFR at 31 March 2021 was 140% (2019/20: 131%), compared with a regulatory requirement of 100%.

Funding

Funding balances

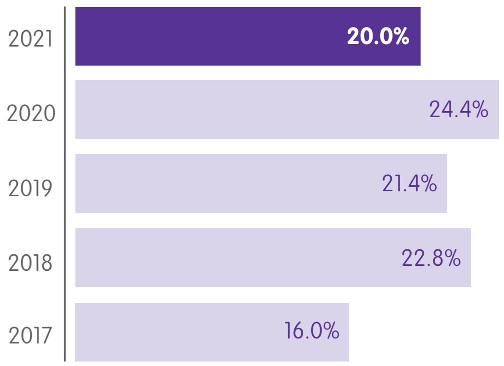


As a mutual, the Society's primary source of funding is retail deposits. Retail savings balances increased by 10% in the year to £4.23bn (2019/20: £3.85bn). Within this total, branch based accounts increased by 5% in the year to £2.98bn.

Retail savings balances make up 80.0%, (2019/20: 75.6%) of total funding with the remainder being wholesale funding. Accessing the wholesale markets can reduce the overall cost of funding and mitigate risk by diversifying the funding pool.

Wholesale balances reduced to £1.06bn (2019/20: £1.25bn), which reduced the ratio of wholesale funding as a proportion of total shares and borrowing to 20.0% (2019/20: 24.4%).

Wholesale funding ratio



The Society continued to make use of the low cost funding available from various Bank of England funding schemes, utilising residential mortgage-backed securities and residential mortgages as collateral. The Bank of England launched the TFSME scheme to boost lending for small and medium enterprises and relieve the initial economic shock from the pandemic by providing low cost four year lending. At the end of the year, 22.3% (2019/20: 27.1%) of assets were encumbered to support Bank of England and other wholesale funding initiatives, as detailed in note 39 to the accounts.

Capital

At 31 March	Transitional CRD IV rules 2021 £m	Full implementation of CRD IV[3] 2021 £m	Transitional CRD IV rules 2020 £m	Full implementation of CRD IV[3] 2020 £m
Members' interests and equity	**389.9**	**389.9**	383.8	383.8
Permanent interest bearing shares (PIBS) deduction	**(7.8)**	**(7.8)**	(8.9)	(8.9)
Other adjustments[1]	**5.5**	**(26.5)**	(1.6)	(29.7)
Common Equity Tier 1 (CET 1) capital	**387.6**	**355.6**	373.3	345.2
Additional Tier 1 capital	**7.5**	**-**	8.9	-
Total Tier 1 capital	**395.1**	**355.6**	382.2	345.2
Tier 2 capital[2]	**21.6**	**21.6**	21.6	21.6
Total regulatory capital resources	**416.7**	**377.2**	403.8	366.8
Risk weighted assets (RWA)	**2,360.0**	**2,328.0**	2,347.5	2,308.5
Leverage ratio exposure	**5,785.2**	**5,753.2**	5,569.6	5,541.5
Capital ratios	**%**	**%**	%	%
Common Equity Tier 1 ratio (as a percentage of RWA)	**16.4**	**15.3**	15.9	15.0
Common Equity Tier 1 before IFRS 9 transitional arrangements (as a percentage of RWA)	**15.3**	**15.3**	15.0	15.0
Tier 1 ratio (as a percentage of RWA)	**16.7**	**15.3**	16.3	15.0
Total capital ratio (as a percentage of RWA)	**17.7**	**16.2**	17.2	15.9
Leverage ratio	**6.8**	**6.2**	6.9	6.2

1 Other adjustments mainly comprise IFRS 9 transitional arrangements and deductions for intangible assets and deferred tax. Regulation (EU) 2020/873, issued in June 2020, extends the period of IFRS 9 transition, for capital purposes, as part of a series of measures to mitigate the impact of the COVID-19 pandemic. Under the revised arrangements, 100% of the increase in stage 1 and stage 2 expected credit losses (ECLs) from 1 January 2020 can be added back to CET 1 capital with this relief to be phased out over a five year period. The relief for increases in ECLs arising on IFRS 9 implementation and from 1 April 2018 to 31 December 2019 continues to amortise in accordance with the original arrangements, currently at 70%. By way of derogation from point (b) of paragraph 7 of CRR Article 473a, the Society has exercised the option set out in Regulation (EU) 2020/873 to include the value of IFRS 9 transitional relief within its total exposure measure and risk weight it at 100% when calculating its capital requirements.

2 Tier 2 capital comprises subordinated liabilities excluding accrued interest.

3 References to CRD IV are to CRD IV as amended by CRR II and CRD V to the extent applicable at the reporting date. The 'Full implementation of CRD IV' basis also includes the full unwind of IFRS 9 transitional relief.

Capital is held for the ultimate protection of depositors and other creditors by providing a sufficient buffer to absorb unexpected losses. The Society is required to maintain thresholds set by the Prudential Regulation Authority (PRA) and our capital is assessed under the Capital Requirements Directive (CRD IV). Requirements are continually monitored to ensure minimum regulatory requirements are always met. At 31 March 2021, our Common Equity Tier 1 (CET 1) capital comprised accumulated retained profits in general reserves, core capital deferred shares (CCDS) and other reserves after regulatory adjustments.

Following regulatory changes to both the Internal Ratings Based (IRB) approach and the Standardised Approach to capital requirements for credit risk, over successive periods, the Society's Board has made a decision not to progress with the Society's IRB Application Programme. The Society will instead seek to retain the model capability and disciplines developed as part of the IRB programme to support the management of Credit Risk while continuing to report capital requirements under the Standardised Approach.

The Society's Common Equity Tier 1 (CET 1) ratio at 31 March 2021 improved to 16.4% (2019/20: 15.9%), remaining strong and comfortably in excess of the Society's Total Capital Requirement (TCR) which, at the end of the year equated to 9.3% of risk weighted assets. The TCR refers to the amount and quality of capital a firm must maintain to comply with capital regulations. The leverage ratio also remains exceptionally strong at 6.8% (2019/20: 6.9%), in excess of the expected regulatory minimum requirement of 3%.

In December 2020, EU Regulation 2020/2176 came into force providing an amendment to the deduction of some intangible software assets from CET 1 capital and instead applying a 100% risk weight to those assets not deducted. This amendment has had the impact of improving the Society's CET 1 ratio. We await the outcome of the PRA's recent consultation which proposes the reversal of this intangible software assets treatment.

As explained in note 1 to the table above, transitional arrangements have been utilised in relation to the adoption of IFRS 9 and its phased impact to regulatory capital. Had the transitional arrangements not been in place, the CET 1 ratio at 31 March 2021 would have been 15.3% (2019/20: 15.0%) and the leverage ratio would have been 6.3% (2019/20: 6.4%).

During the year the Society paid £1.29m as dividends on the Society's CCDS. In May 2021 the Directors declared they expect to pay a final distribution for the period to 31 March 2021 of £0.75 per CCDS which would be paid in August 2021. The final distribution is not reflected in these financial statements as distributions to the CCDS holders are recognised with reference to the date they are declared.

No payments of interest to PIBS holders have been made during the year. On 22 July 2020, the Society purchased and cancelled £1,044,000 of its remaining PIBS. Whilst noting that any interest payments on the PIBS are at the sole discretion of the Society, the Society announced during its capital restructuring in 2018 that any future payments on PIBS will be made only if and to the extent that they would have been permitted had the Liability Management Exercise (LME) not taken place, and in the context of determining the equivalent annual yield that would have been paid to holders of the Society's Profit Participating Deferred Shares (the "PPDS") had they remained in issue on their original terms. Under the terms and conditions of the PPDS (which are available for viewing on the Society's website), the Society's ability to pay PPDS distributions was constrained by reference to a percentage of profits generated in the relevant financial year, and to the extent of any positive balance on a special PPDS reserve account (to which a percentage of profits or losses of the Society was allocated each year).

Whilst PPDS instruments no longer exist (having been exchanged during the LME in April 2018), the Society continues to monitor a notional PPDS reserve. At 31 March 2018 (the last accounting date before the completion of the LME) the deficit on the PPDS reserve stood at £9.1m. At 31 March 2020, the Society disclosed a deficit balance on the notional reserve of £5.7m. For the year ended 31 March 2021, the Society generated a reported net profit of £5.1m, including the impact of £2.5m Tier 2 interest payable. The net profit disregarding Tier 2 interest (after tax) would therefore have been £7.1m. Accordingly, during the year the notional PPDS reserve deficit reduced by £1.8m (25% of £7.1m) leaving a deficit of £3.9m at 31 March 2021.

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

Principal risks and uncertainties

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

The separate Risk Management Report on pages 36 to 43 identifies the principal risks and uncertainties faced by the Society and describes, in detail, the West Brom's approach to risk management.

Financial outlook

The majority of this financial year has proved challenging with the impact of the outbreak of the COVID-19 pandemic. The Bank Rate was held at 0.10% throughout the year, leading to lower rates for savers and offering low mortgage rates for borrowers. The schemes offered by the UK government to ease the financial impact of the pandemic have provided significant support to both individuals and businesses. Additionally, the cuts to stamp duty tax have led to growth in housing market activity; as a result the Society recorded its highest levels of residential lending for three years with applications of £1.2bn received during the year.

Reduced levels of lending activity in the market are anticipated as government support schemes and incentives come to an end. Unemployment levels have been at their highest for over five years as the UK government enforced national lockdowns to reduce the spread of the virus. Where various sectors of the economy had to close through most parts of the year, job losses have unfortunately followed. Inevitably this will lead to increased levels of arrears and continue to adversely impact the commercial property market. The Society has increased its impairment provisions to cover against this risk and is well positioned operationally to provide support to borrowers who find themselves in a difficult position.

Encouraging signs of the vaccine rollout and the potential roadmap out of lockdown have provided some hope that a return to some normality could be expected in the coming months. Latest GDP forecasts are also showing signs of growth in the economy.

As interest rates are anticipated to remain at low levels into the next financial year, the Society will continue to balance the needs of its borrowing and saving members. The additional support offered by the Bank of England TFSME scheme has provided inexpensive funding to assist with our lending objectives. The Society's responsible approach to lending will continue to pursue growth opportunities that do not detrimentally impact our savers.

In addition to demonstrating strong operational resilience, the Society has delivered strong performance against its strategic objectives this financial year, with an increase in profitability, growth in residential lending, a strengthened capital position and further reduced our non-core commercial exposures on the balance sheet. We have progressed positively with advancements in our IT infrastructure as we get closer to hosting our own online digital services to our members. Our sustained levels of high customer service has been paramount in what we do and this continues to be seen through our membership. As we move forward, the Society is well placed to face the wider economic challenges that may emanate.

Customer research and engagement

Over the last 12 months, obtaining feedback from our customers has been incredibly important as we supported members through the pandemic. Engaging with customers helps us to adapt our operations, and consider ways we can improve our services to meet the needs of our membership. This year we were unfortunately unable to meet members in person, but we were still able to engage through a number of different methods.

Firstly, with the assistance of virtual platforms, we successfully continued with our Member Councils. The meetings in June 2020, November 2020 and March 2021, were held via Zoom to enable us to maintain regular contact and gain feedback from the Council. Our members found this very helpful and were able to partake in the meeting as normal, allowing various important topics to be discussed.

As well as this, over the last 12 months we conducted questionnaires with our customer panel made up of over 2,000 members. The questions raised to our panel focused on their views around financial wellbeing and their experiences. In March 2020, we were also one of the first building societies to provide mortgage payment deferrals to any customers that needed support during the pandemic. As this was a service we provided for the first time, gaining feedback from our customers was vital and insight through questionnaires provided us with the opportunity to continually improve the entire process.

"I have enjoyed being a Council Member who takes a keen interest in the business being able to usefully discuss and determine how the Society, with mutuality at its core, meets the needs of its members. The social composition of the council is wide and thus a wide and healthy range of views usually results during meeting discussions."

David Roberts

We also collated feedback by carrying out customer satisfaction surveys once a product or service has been provided. Our partner organisation, Wren Sterling, is responsible for providing independent financial advice to our customers. Due to the COVID-19 restrictions, face to face appointments were not possible, so we worked together to introduce online appointments. This is a new service, and in the future we will be able to add questions regarding the online appointments in future surveys as another way to obtain feedback.

Finally, alongside the support we provided members through the pandemic, we also launched our seven Member Commitments this year, a foundation on which all our business practices are built. The commitments clearly detail the way we will do business with members as we work to deliver their best interests. We have developed measures to evidence and monitor how we are delivering against the commitments, and will be embedding them as part of our quarterly reporting schedule from this year, to help us continually learn and improve.

Despite the challenges brought by the pandemic, we have still managed to work closely with our members, customers and colleagues through online and telephone communication. The collection of feedback and research received allows us to further develop and adapt, so that we can continually deliver our Purpose: to support the financial wellbeing of our members.

Engaging our Stakeholders

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

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

As discussed further in the Corporate Governance section of this report on page 50, the UK Corporate Governance Code (the Code) provides the basis for the Society's approach to corporate governance. As a building society, although the West Brom is not required to comply with the Code, aligned to the fundamental belief referred to above, the Society includes information on how the Board listens to, hears and acts upon the views of stakeholders within its decision making by way of a Section 172 Statement (in so far as this statement is relevant to a building society).

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

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

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

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

Our Members - we exist to fulfil our Purpose to members. Listening to our members helps us develop our strategy in a way that is for their long-term benefit.	Established in 2019 our Member Council acts as a formal body that helps ensure the Board's long-term strategic decision making remains considerate of member views. Across the year the Council has met three times, with meetings chaired by the Society's Chief Executive or Non-Executive Directors where appropriate. Topics discussed have ranged from the Society's response to the pandemic to Executive Remuneration.
	
	In November the Council provided input to a recommendation to proactively support customers of a non-member legacy subsidiary to remortgage to the Society and, in doing so, reduce the interest rate they are paying. Support was shown for this initiative with recommendations carried through to Board.
	
	The Council also provided substantial feedback on the customer journey of our new savings system through a demonstration provided by our core system supplier. This valued feedback is being taken forward as part of the final design.
		• Monthly management information supplied to Board covering key customer metrics including:
		  • NPS;
		  • Customer satisfaction;
		  • Ease of doing business; and
		  • Complaints.
		• Customer feedback – members invited to provide feedback on the Society's services through our 'voice of the customer' initiative.
		• Customer panel – over 2,000 members that regularly complete questionnaires to help us shape our offering. This includes testing literature for new products to make sure it is clear, balanced and easy to understand.
		• See page 28 of this report for further details on how the Society engages with its members.

Our Stakeholders	How the Board has considered views within decision making	How else we engage to ensure views are considered
Our Employees - our people underpin the delivery of our Purpose. By listening to and acting upon the views of our people we create a culture that enables the delivery of our Purpose.	Like our Member Council, our Employee Council acts as a formal body that helps ensure the Board's long- term strategic decision making remains considerate of the views of the Society's people. Across the year the Council has met three times, with meetings chaired by the Society's Chief Executive or Non-Executive Directors where appropriate. A Non-Executive Director also joins meetings of the Council as an attendee to strengthen the link between the Council and the Board. Topics discussed have ranged from our colleague survey to our proposed use of the Dormant Accounts Scheme. Specifically in June, the Council provided considerable input to the focus and wording of our new Member Commitments – a set of pledges that now form the basis of the Society's offering to members, measures against which, moving forward, will form the basis of performance-related pay for all colleagues. Input from the Council highlighted the importance of sustainability, across both the environment and communities, in ensuring the Society remains able to support future generations of members. This feedback was carried into the final set of commitments which were unveiled to all colleagues in January and will be embedded across the Society through the years to come. The full set of commitments are available on page 3 of this report.	• Regular colleague surveys which, this year, included a survey focused on wellbeing through the pandemic. This survey provided a chance for colleagues to feedback on the Society's approach and measures introduced to support colleague wellbeing through this difficult time. Results were overwhelmingly positive with over 90% of colleagues feeling supported by the Society. • The ongoing activity of our diversity and inclusion employee group, Connect, chaired by a member of the Executive. Further details of the activity of our Connect Group can be found on page 34 of this report. • Ongoing dialogue through our intranet platform WeBe, which allows open, transparent and conversational discussions across all of our people including the Executive. • A number of 'all hands' videoconference meetings hosted by our Chief Executive providing an opportunity for our people to ask questions.
Our Communities - as a business we do not exist in isolation but form an integral part of the communities we serve. Listening to and understanding the role we play helps ensure our decisions remain sustainable.	As a regional building society the strength of our community relationships helps contribute to being a sustainable business – one which cares about the communities it serves. As detailed on pages 32 to 33 of this report, the significant work the Society undertakes to support local community causes is very much fundamental to what we do and how we operate. The Board receives regular updates on the Society's community activities which, through the pandemic, has seen multiple causes supported by the Society and its colleagues. With the impacts of the pandemic often felt greatest amongst those most vulnerable in society, this year the Society decided to orientate its fundraising activity towards local foodbanks. In total Society colleagues and members raised over £34,000 for three foodbanks who help provide essential products for some of the most vulnerable individuals and families within the Society's operating area.	• Much needed funding to local causes through our Community Account, affinity savings products and grants administered through the Mercian Community Trust; • Fundraising and volunteering in support of causes covering a wide array of community needs; and • A community apprentice programme offering business mentoring support to young people through local charity Envision. Full details of our considerable community engagement programme can be found on page 32 of this report.

<table>
<tr><th>Our Stakeholders</th><th>How the Board has considered views within decision making</th><th>How else we engage to ensure views are considered</th></tr>
<tr><td>Our wider stakeholder groups - intermediaries, suppliers and investors. We recognise our reliance on a number of key third parties to support core elements of our business model. Listening to the views of these groups helps foster constructive working relationships and is key to our mutual success.</td><td>The Board regularly receives updates from the working relationships we foster with our wider stakeholder groups including:
• The results of our annual broker survey which provides our much valued intermediary partners the chance to let us know how we're doing and to give us ideas for how we can improve. The results of this survey are used to inform product, policy, process, service and system developments.
• A demonstration of our new savings platform which is currently under development with our core systems provider.
• Representation from chosen suppliers on the Steering Committee for our Core Savings System Transformation Programme, which also includes Executive members of the Board.
• Relationships with our wholesale investors overseen by the Assets & Liabilities Committee.</td><td>• Regular attendance at supplier user groups which help provide a constructive feedback loop between clients and providers; and
• Engagement with investors to support the development of constructive working relationships.</td></tr>
<tr><td>Our Environment - understanding and actively reducing the impact of the Society's operations ensures we are able to support the financial wellbeing of generations to come.</td><td>Understanding and seeking to actively reduce the environmental impact of our physical operations is a growing priority of the Board. Action across the year has included:
• Ongoing work to understand the environmental impact of our investment property subsidiary West Bromwich Homes Limited, with action being taken to ensure the portfolio meets the newly introduced EPC standards;
• Ongoing work to understand and model the financial risks associated with climate change across our mortgage portfolio;
• A programme of work to reduce the impact of our physical estate on the environment by reducing waste and becoming more energy efficient working towards defined targets;
• Accelerating our target to become net zero for scope 1 carbon emissions to 2025.</td><td>An environmental policy that requires the following aims and targets to be met through continuous improvement which includes:
• Carbon neutrality;
• Energy and water;
• Waste;
• Travel and transport;
• Procurement;
• Health and wellbeing; and;
• Training, awareness, and communication.
Further details on this policy can be found on pages 34 to 35 of this report.</td></tr>
<tr><td>Our Regulators - as a dual regulated Financial Services firm having an open, transparent and constructive dialogue with our regulators ensures the decisions we make regarding our long-term future are safe and sound.</td><td>The Society's Board maintains an open and transparent relationship with both the FCA and the PRA. Key engagement includes:
• The management of any actions raised by regulatory reviews at Board level with key updates provided at regular intervals; and
• Attendance of Board members, both Executive and Non-Executive, at key regulatory update meetings so the Society's position is considered in light of emerging developments.</td><td>• Monthly updates provided on key regulatory items covered within the material supplied to the Board.
• Regular dialogue with regulatory supervisors covering principal risks and other matters.
• Regular regulatory 'horizon scanning' completed by our Legal and Regulatory team to ensure the Society is well informed regarding latest updates and actions required.</td></tr>
</table>

Corporate Social Responsibility

Making mutuality count

As a key mutual organisation within our operating region, we are aware of the potential we have to improve the lives of local people by acting as a genuine force for good. This is expressed through our commitment to corporate social responsibility and, through our fundraising efforts, charity schemes and affinity partnerships we have supported a range of causes including homelessness and food poverty.

Not taken for granted

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

Grants to help local causes are administered through the Mercian Community Trust, which has been formed from this partnership, and it has enabled us to provide much-needed assistance to causes covering a wide array of needs such as disability, bereavement, end-of-life care, domestic violence, environmental enhancement, homelessness, foodbanks, educational provision for young people, along with organisations concerned with the health of older people recovering from strokes, cancer, and cardiac events.

The COVID-19 crisis has brought its own vocabulary, 'social distancing' being a case in point. Yet, long before social distancing became a matter of routine for the rest of us, being apart from others has long been a fact of life for people who are homeless or sleeping rough.

Living on the margins can feel a bleak and fearful place but the Good Shepherd charity in Wolverhampton offers them a helping hand – and we supported their efforts with a grant of £1,000 from our charitable resource, the Mercian Community Trust.

The charity, which operates a daily food service for rough sleepers and people in poverty, has seen demand for its services rocket by 50% during the pandemic to more than 180 meals a day. The number of food parcels has also increased dramatically.

But the provision of food is not just about physical nutrition. For the Good Shepherd charity, such compassion can begin to break down the barriers of distrust that many 'hard-to-reach' rough sleepers learn to erect, often as a reaction to being ignored, isolated, or even abused.

The charity represents a way out of the shadows, giving them a glimpse of a brighter future, especially with the opening of its new premises. There's practical and one-to-one support, together with referral to specialist agencies for employment and education, mental health, drug and alcohol services – all with the aim of furnishing homeless people with the skills and confidence that underpin an essential sense of self-respect and reliance.

And with links to the overnight shelter run by the Enterprise Homes Group, the charity can offer 20 emergency beds to those sleeping on the streets.

"The pandemic has been such a worrying time, particularly for those on the fringes of society who might not have the same networks of family and friends as the rest of us. This fantastic and very generous donation from the West Brom is hugely appreciated and has played a major part in helping us to help others during these difficult days. We cannot thank you enough."

Helen Holloway (Admin and Finance Manager)
Good Shepherd

Taking fundraising higher

A major focus of the Society's commitment to the community is our fundraising efforts on behalf of a local charity, which is chosen by our staff. For a large part of this financial year, we continued to raise funds for Midlands Air Ambulance Charity, which carries out over 3,400 missions a year via air ambulance and critical care car, responding to a potential fatality or major trauma injury.

As Midlands Air Ambulance Charity does not receive any funding from the government, NHS or National Lottery for its daily missions, it is very much dependent on the generosity of the public and local organisations, like the Society, which is why our backing is so valuable, especially when each air ambulance mission costs £2,500 and each critical care car mission costs £224.

In that sense, staff have been immensely committed and passionate in coming up with a repertoire of creative ideas; this has resulted in over £34,000 in total being raised for this vital lifesaving service. This has often involved staff from the Society giving up their own time to participate in fundraising events for the charity.

"From the very start, your staff have been simply superb, showing tremendous energy, creativity and determination in their fundraising endeavours. Your passion for the charity was clear, which is why arrangements were also made for staff to meet our aircrew at the RAF Cosford airbase. Thank you to everyone at the West Brom – the money raised will go a long way in supporting our vitally important lifesaving service across the Midlands region."

Jon Cottrell (Senior Partnership Executive)
Midlands Air Ambulance Charity

Here at the West Brom, we are known for not shying away from any sort of challenge no matter how big or small. The year 2020 brought along with it a pandemic which tested us in so many ways, and as we know, it had a huge impact on the most vulnerable in our communities. The harsh reality was that for many families and individuals in our community, Christmas 2020 would have only brought more stress and worry to source basic items like food. So to take a little weight off their shoulders, we decided to raise funds for three local food banks to provide much needed items to help the vulnerable in the local community.

Through December, the Society launched the 'Big Shop' initiative and encouraged colleagues to fundraise over the festive period to give back to the food banks. Colleagues from all departments came together to bring a wide range of exciting activities which included virtual Zoom quizzes, a 'Name the Bear' competition, buy a bauble, virtual bingo and many more. In addition to this many donated the funds they would have spent in lieu of a Christmas party and some even jingled to a Tik-Tok video in their Christmas jumper to raise that little extra.

The festive fundraisers and spirit from our colleagues raised £4,200 and a generous Society member donated a further £30,000 to help support the initiative which was close to their hearts. The total sum of £34,200 was used to support three local food banks; Wednesbury Breaking Bread, West Bromwich Foodbank and Black Country Foodbank, to help individuals and families who, through various circumstances, find themselves in crisis.

The Black Country Foodbank, which has a much bigger operation, allocated the supplies to a number of other local foodbanks, thus spreading more vital help to the wider communities.

"With 2020 being a tough year for so many, the pandemic has left more people facing the harsh reality of living in poverty and relying on foodbanks to support themselves and their families. We rely mainly on the kind donations from sponsors such as the West Brom, and are incredibly grateful for their fundraising efforts. A little really does go a long way here, and the donation will enable us to provide food for 380 families over the next 6-8 weeks."

Keith Turner (Manager)
West Bromwich foodbank

The value of volunteering

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

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

Staff at the Society are entitled to two volunteering days every year and, despite the restrictions because of the pandemic, staff strived to support local charities and community causes, which given the restrictions on their activities was needed more than ever.

The strength of partnerships

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

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

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

Another longstanding and immensely successful partnership for the Society is with Birmingham Children's Hospital, which enjoys a richly-deserved reputation, nationally and internationally, for its treatment and care of children and adolescents. Thanks to the Society's Red Balloon Appeal, some £886,000 has been generated for the hospital since 2007. In the past, funds have gone towards the hospital's renal unit and Emergency X-Ray Appeal. More recently, it has contributed to funding a team of play and recreation facilitators, which is so essential when it comes to easing the experience of hospital for children.

In addition, each year staff usually go along to the hospital and help decorate the wards for Christmas. Unfortunately, due to restrictions, this was not possible this year so staff came up with a Virtual Breakfast with Santa event to raise money to further support the hospital.

"We're so thankful to The West Brom and its members for their ongoing support. This is even more critical, as our charity is likely to feel the impact of fundraising events being cancelled due to COVID-19, and businesses who are unable to continue their support due to the challenges they face as a result of the pandemic.

However, the vital service our hospital provides to young patients and their families must continue. Our charity helps to fund a team of 12 Play and Recreation Facilitators and Workers who help more than 250 children and families every single day, so donations like this from The West Brom are important in helping us raise the £300,000 needed every year to allow us to continue bringing play to our brave children."

Saranne Moreno (Corporate Strategic Partnerships Manager)
Birmingham Children's Hospital

Let's be Crystal Clear

It is fair to say that banks and building societies can have a poor reputation regarding the clarity of their terms and conditions. That's why we wanted to make our terms and conditions as simple and free from jargon as possible, while still ensuring that we were complying with our legal obligations. We engaged and worked closely with Plain English Campaign to review our Savings General Terms and Conditions to ensure we got the balance right and, as a result, obtained the much sought after Crystal Mark accreditation.

Plain English Campaign has been running since 1979 and seeks to remove all jargon, gobbledygook and misleading public information from communication. The Crystal Mark is their seal of approval for the clarity of a document and ensures that all information is as clear as possible and uses everyday English. Launched in 1990, and the first mark of its kind, the Crystal Mark is now used by over 2,000 organisations who want to provide the clearest possible information.

"Plain English Campaign's Crystal Mark is a reassuring confirmation that our General Terms and Conditions have the necessary clarity and transparency required to ensure that we have effectively communicated both the operational and legal aspects of having a West Brom savings account with our customers."

Matt Underhill (In-House Lawyer)
the West Brom

Employee diversity

It is our view that diversity of backgrounds brings richness of thinking and ultimately leads to a more successful business. For this reason the Society proactively seeks a diverse range of employees, and continually looks for ways to ensure colleagues of all backgrounds feel welcome and able to contribute their best.

Our belief is that by attracting and retaining individuals from a broad range of backgrounds, we ensure the Society benefits from the best talent. Given that the Society is located predominantly in one of the most ethnically diverse regions in the UK, this level of diversity is also critical to our business model.

Our commitment to diversity is evidenced in a number of ways. Being one of the original signatories to the Women in Finance Charter with our CEO as the Executive Sponsor, displays our intent for gender equality. During 2020 we signed up to the Race at Work Charter, appointing Greg Johnson our Director of IT Service & Solutions as the Executive Sponsor, clearly demonstrating our commitment to race equality across the organisation.

In terms of gender, the Society has again published the required report on the gender pay gap. Closing any gap in the published metrics remains a key focus for the Society. The two main actions required to make meaningful progress on closing the gap are the attraction of more men into entry level roles, many of which are part-time positions in branches, whilst also progressing more women into the Society's most senior roles, in effect achieving a balance at all levels of the pay scale. Specific actions have been set and shared with the Remuneration Committee for ongoing review, however it is recognised that both require a long term focus. Succession for some of the most senior roles demonstrates the progress that has been made at this level, where the volume of female employees identified is circa 50%. The ultimate aim is to have a gender balance at all levels of the organisation, not just to remove the pay gap, but to ensure a balance of views and perspectives across the Society, as one key element of the diversity agenda.

Our commitment to a greater gender balance at a leadership level can be witnessed through the commitments made via the Women in Finance Charter. Over a third of the Society's Board – 38% – is female, which is above the original target of 30% we set for ourselves for 2020. As for the Society's senior management figure, at the date of the last report representation was 35%, against a 30% target. Both of these targets are currently under review to ensure the focus is maintained.

In total, out of 662 staff (including Non-Executive Directors), women make up 423 (64%).

Details of staff composition at the end the year is outlined below, compared to 2020:

		2021 Female	**2021 Male**	2020 Female	2020 Male
Directors	Number	**3**	**5**	3	5
	Percentage	**38%**	**62%**	38%	62%
Senior managers	Number	**27**	**56**	28	53
	Percentage	**33%**	**67%**	35%	65%
Other colleagues	Number	**393**	**178**	418	185
	Percentage	**69%**	**31%**	69%	31%

Senior managers include divisional directors and employees categorised as 'Senior Managers' and 'Senior Specialists'. Many 'Senior Specialist' positions are within areas such as Finance and IT, both divisions that historically attract more men than women at all levels, so concerted effort is required to proactively attract more women to commence careers in these divisions, hence why a longer-term focus is required.

Looking at the ethnicity of colleagues at the Society, the composition (compared with 2020) is as follows:

		2021 BAME	**2021 Non-BAME**	2020 BAME	2020 Non-BAME
Directors	Number	**1**	**7**	1	7
	Percentage	**13%**	**87%**	13%	87%
Senior managers	Number	**16**	**66**	16	69
	Percentage	**20%**	**80%**	19%	81%
Other colleagues	Number	**180**	**390**	187	409
	Percentage	**32%**	**68%**	31%	69%

(BAME refers to Black, Asian and minority ethnic)

All levels show ethnic minority representation above the West Midlands average of 17.5%, with Directors in line with the UK average of 13%. Having 32% of the Society's 'other colleagues' drawn from ethnic minority communities is particularly valuable for branches in areas with a mixed ethnic profile. By having staff with multi-lingual skills, we are better positioned to offer a service for customers in such localities that are culturally sensitive and relevant.

The Society appreciates that a diverse employee base requires a fully inclusive culture and a broad understanding and acceptance of the value differences between employees brings. Promotion of such understanding was the thinking behind the creation of Connect in 2018.

Connect is represented by a team of employees from across the Society who meet on a monthly basis, guided by the conviction that everyone within the business should feel involved and valued, and their identity respected. The group is sponsored by the Society's Group Finance & Operations Director ensuring two–way communication between employees and the Executive.

Following a Disability Audit the Society was accredited as a Disability Confident Employer - level 2 status. Planning is underway this year with the aim of progressing to the next and final level of 'Disability Leader'. We want our status as a Disability Confident Employer to be more than a statement of intent but one of ongoing achievement.

The Society recognises that flexible working is an important offering for all employees, especially in supporting colleagues with childcare and other carer responsibilities. Our policy on flexible working is valued by colleagues, and indeed during the pandemic crisis the ability for the majority of colleagues to work effectively away from the office environment has been clear to see.

Environment

Climate change has been identified as one of the greatest challenges facing nations, governments, business and citizens over future decades. Climate change has implications for both human and natural systems and is leading to significant changes in resource use, production, and economic activity. In response, we are developing initiatives and implementing change to limit the Society's greenhouse gas (GHG) emissions by building upon the past improvements we have made.

Our new initiatives will be based upon the quantification, monitoring, reporting and verification of GHG emissions and removals, and waste elimination for all future reporting periods. The health and wellbeing of our staff, visitors, and customers is of equal importance to us. We will be taking steps to ensure that those elements of our operations that affect the environment in which people use our facilities, such as indoor environment quality and local building emissions, are maintained to well within recommended limits.

Our current environmental policy requires the following aims and targets to be met by continuous improvement:

- **Carbon neutrality** – we will become carbon neutral for all operations under our direct control by 2025 and aspire to being carbon positive (removing more carbon than we use) by 2050. We will report on, and significantly reduce the carbon emissions of our supply chain by 2025.
- **Energy and water** – to efficiently operate and maintain our buildings such as to maintain healthy indoor environments, using less energy and water, reducing carbon emissions and promoting the use of renewable energy and resources.
- **Waste** – reduce our resource consumption, to re-use where possible and to recycle unwanted materials e.g. paper, furniture, carpets, equipment, food etc.
- **Travel and transport** – minimise emissions from business travel, commuting, and deliveries, and to promote more sustainable travel by staff and visitors.
- **Procurement** – to procure goods and services in a socially, environmentally and economically responsible manner. This can range from the ordering of Fairtrade products to the purchase of materials and consumables containing recycled and sustainably produced materials.
- **Health and wellbeing** – to contribute to the positive mental and physical health and wellbeing of staff and visitors.
- **Training, awareness, and communication** – to increase sustainability literacy amongst staff, contractors, suppliers, partners and visitors.

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

Energy Use 2020-2021	kWh p.a.	$KgCO_2$ (tonnes) p.a.
Buildings electricity	2,368,823	552,267
Buildings natural gas	1,315,695	241,920
Transport	102,245	24,310
Totals	**3,768,763**	**818,497**

The challenges presented by the pandemic have impacted progress on our environmental plans but in the year 2020/21 we have continued with environmental actions where possible:

- **LED Lighting:** LED fittings are currently used to replace existing lamps that fail as a matter of course.
- **Electric Vehicle Use:** We have introduced electric vehicles into our company car fleet along with the installation of two charging points. Feedback from this exercise will be used to determine a transport strategy that will include the wider consideration of vehicle usage across the Society.
- **Site Optimisation:** A review of Mechanical and Electrical (M&E) facilities/installations across the sites has been undertaken to enhance the effective and efficient operation of services.
- A sample branch has been identified and surveyed as a potential test bed for environmental improvements. A report by an external consultant has been submitted and actions are currently being considered.

Don't take our word for it

We are proud that we have been formally recognised as a responsible and caring business and employer, becoming the first financial services organisation to receive an official accreditation by the Good Business Charter.

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

To qualify for the accreditation, firms must demonstrate commitment across 10 categories that include paying at least the real living wage, action on employee wellbeing, diversity and inclusion, sustainable practice and other CSR initiatives.

We impressed with our charity work and fundraising initiatives, and we were acknowledged for our industry leading approach to employee wellbeing and engagement, including the introduction of member and employee councils in 2019.

Other non-financial information

The Society adheres to the highest standards with regards to anti-bribery and corruption. All colleagues are trained in recognising and understanding the associated risks and are required to complete mandatory training. Additionally, the Society has in place policies to comply with applicable laws, including the Bribery Act 2010 and the Criminal Finances Act 2017. The Society publishes a Modern Slavery and Human Trafficking Statement annually on its website and continually seeks to improve its vigilance in respect of modern slavery issues via its Supplier Selection and Management policy and related procedures. The Society has a zero tolerance approach to slavery and human trafficking in all its forms, both in its supply chain and its business operations.

On behalf of the Board

Ashraf Piranie
Group Finance & Operations Director
27 May 2021

Risk Management

Overview

Effective management of risks and opportunities is essential to achieving the Society's objectives. The Board aims to manage effectively all the risks arising from its activities and believes that its approach 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.

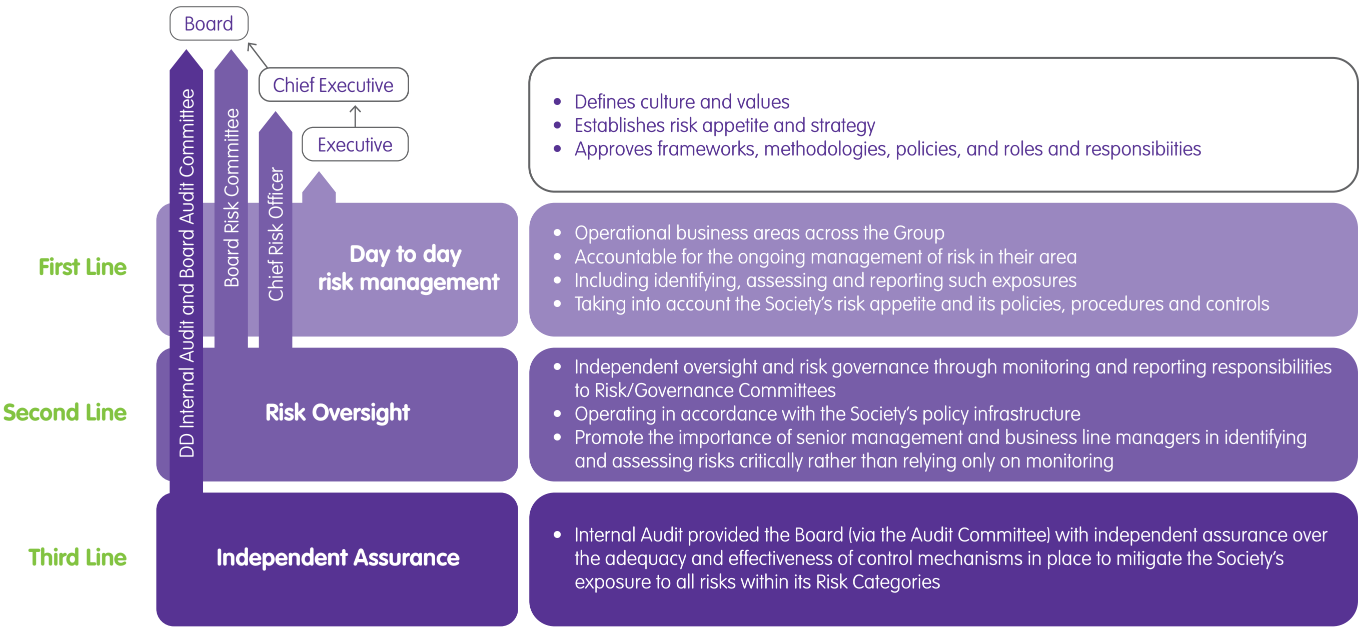
The Society operates entirely within the UK financial services market and only takes on risks, which it has the capability to understand and manage effectively.

Risk management framework

The Society's activities are governed 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 risk categories to which the Society is inherently exposed as a building society: business, credit, capital, liquidity, market, margin compression stress, operational, retail conduct, pension liability, information and model risk (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.



Governance structure

During the year, risk governance was provided by a structure consisting of ten key risk management committees/groups:

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

Audit Committee (AC) - Comprising four Non-Executive Directors, the Audit Committee provides the Board with assurance regarding the integrity of the financial statements 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.

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

Assets & Liabilities Committee (ALCo) - This Committee is chaired by the 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, margin compression, basis and interest rate risk.

Residential Credit Committee (RCC) - This Committee is chaired by the Chief 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 CRO and is responsible for monitoring the Society's exposure to credit risks in the commercial loan book.

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

Operational Resilience Group (ORG) - This Group is chaired by the Group Finance & Operations Director and is responsible for monitoring and embedding all aspects of operational resilience across the Society.

Capital Review Group (CRG) - This Group is chaired by the Group Finance & Operations Director and is responsible for reviewing the Group's capital position.

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

Risk categories

The Board has identified eleven 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.

Margin compression risk

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

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.

Model risk

The risk of adverse consequences resulting from decisions based on models that are inaccurate, sub-optimal, incorrectly implemented, or misused.

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.

Climate change

The Society recognises that climate change represents a significant threat to financial stability as well as the natural environment. Whilst not currently a Board Principal Risk in its own right, the Society recognises that climate change works to exacerbate existing risks. While the financial risks from climate change may crystallise in full over longer time horizons, they are also becoming apparent now. Financial risks from climate change can arise through two primary channels: physical and transition, which can manifest, for example, through increased credit risk or market risk.

Physical risk can manifest through increasing frequency, severity or volatility of extreme weather events impacting mortgaged properties. Transition risks can arise from the process of adjustment towards a low-carbon economy. The Society is working to quantify its potential exposure to both of these climate change risks.

Governance

The Risk Committee, as delegated by the Board, has responsibility for the oversight of climate change risk. The risks from climate change, and progress towards identifying and managing them, are presented to the Risk Committee on a regular basis.

In response to the PRA Supervisory Statement on the Financial Risks from Climate Change, the Board designated the CRO as the senior manager responsible for identifying and managing these risks.

Risk management

The Society has continued to embed the management of climate change risk in its overarching Risk Management Framework. Climate change has been designated as a Strategic Risk for the Society and the risks identified with associated mitigating actions are reported regularly to ERC and RC. The Society has also continued to progress initiatives to further understand the risks and opportunities associated with climate change. As part of this activity, the Society is developing a Climate Change Risk Management Framework, which will be implemented during 2021.

The implementation and embedding of the Climate Change Risk Management Framework will support the identification of potential risks from climate change and will feed into the corporate planning process.

Additionally, the Society is undertaking a project to acquire publically available data on Energy Performance Certificate (EPC) Ratings of its properties in England and Wales. This will allow the Society to address the potential transition risk of increasing minimum energy efficiency standards for properties to be let, affecting the buy to let portfolio. This information will also allow the Society to begin to quantify the impact of differing severity of climate change scenarios on its portfolio at a mortgage level and its branches and head office premises. Details of the energy efficiency ratings will be provided in this report next year.

Scenario analysis

The Society is undertaking physical scenario analysis in order to quantify its flood and subsidence risk exposure. Analysis will be performed on all of the Society's loan portfolios. Properties will be assessed under three global greenhouse gas concentration scenarios, low, medium, and high. The high concentration scenario, also known as Representative Concentration Pathway (RCP) 8.5, is a worst case scenario, with greenhouse gas concentrations rising throughout the 20th century and no new remediation actions taken by national governments.

This analysis will be summarised in the 2021 ICAAP, with expected losses at the 5-year horizon feeding into the corporate planning process.

Disclosure

The Society has made disclosures through the UK Streamlined Energy and Carbon Reporting (SECR) framework. This includes energy use from electricity, gas and transport fuel, as well as associated greenhouse gas emissions. The Society is therefore also working to reduce waste, operate more efficiently, and procure energy from renewable providers.

Business conditions and the economic environment

COVID-19 and the government's response to mitigate the pandemic resulted in an unprecedented stress to the UK economy and the Society's operating environment. The implementation of initial and subsequent lockdown measures resulted in a significant contraction in economic activity and effectively closed the housing market during spring 2020. While the economy started to recover during the second half of 2020, the implementation of further localised and then national restrictions curtailed the recovery.

GDP growth is now projected to recover rapidly towards pre-COVID levels over 2021, as the vaccination programme is assumed to lead to an easing of restrictions. As of 6 May the Bank of England projects GDP growth of 7.25% in 2021. Growth is supported by the unprecedented fiscal and monetary policy actions already announced. However, the strength of any recovery could be put in jeopardy by the emergence of new variants of the virus, with restrictions re-imposed.

Despite the subdued economy, the housing market has been strong following the reopening of the market. House prices have picked up sharply and the number of mortgage approvals has increased, providing the Society with a healthy pipeline entering the new financial year. The strength can be partly explained by the stamp duty holiday, which is now due to end in June, and the furlough scheme, which has supported the incomes of a significant portion of the UK working population. These schemes, along with the recently announced 95% LTV mortgage scheme have seen the downside risk to house prices in 2021 reduced. However, the unwinding of the government's support schemes could see a reversal of this trend. The Society has shown appropriate prudence in its modelled macroeconomic scenarios to take account of this downside risk.

Following the government's announcement of the mortgage payment deferral scheme in 2020, the Society confirmed that borrowers who advised they were experiencing financial difficulty as a result of COVID-19 would be supported with forbearance. The vast majority of borrowers who requested this assistance have gone onto continuing full repayments following the end of their deferral periods. The small proportion of accounts in arrears following payment deferral periods have overwhelmingly been those accounts which were already in arrears before a request for a deferral was made.

Bank Rate has remained at a record low 0.10% since the cut in March 2020. Although the rationale for a negative rate may have weakened since the start of mass vaccination programmes and the roadmap towards normalcy, this remains a lever that can be pulled by the Bank of England. The Society is preparing for this possibility and is compliant with the Bank's request that firms be operationally ready for negative rates by August 2021.

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

In addition to the significant risks posed by the COVID-19 pandemic and although the UK has left the EU, there remains uncertainty around the UK's future relationship, in specific areas such as financial services, which has the potential to further impact on consumer and business confidence. The external factors that impact the Society include:

- Interest rates (Bank Rate, LIBOR (including discontinuation) or SONIA);
- Inflation;
- Unemployment; and
- The residential housing and commercial property markets.

The Society is not exposed to any direct trade with the EEA and does not rely on regulatory pass-porting into the EEA and is not directly dependent on EEA based financial market infrastructure.

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 and Conduct Risk and Assets & Liabilities Management Oversight – the 'Second Line of Defence'. These functions develop and review policies, monitor and support compliance with those policies, and support the business functions in their management of risk.

Governance and oversight is provided through a number of management and executive committees as detailed on page 37.

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 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.

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

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

In response to the COVID-19 pandemic, the Society is keeping its Credit Risk policies and procedures under constant review. New lending policies and procedures have been amended to take account of economic uncertainty, market movements, and the impact of government support.

Similarly, the Society's approach to Collections and Recoveries has been reviewed in light of the introduction of mortgage payment deferrals and the moratorium on possessions, and will continue to be updated in line with any ongoing government and regulatory guidance.

The Society's internal credit risk reporting has also been enhanced to ensure that the risk committees have additional information in relation to payment deferral requests, and their performance once the payment deferral ends.

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, holding the vast majority of liquidity in the Bank of England Reserve Account and other high quality, LCR-eligible assets. Treasury operates a strict control framework and exposures are monitored on an intra-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 Building Societies Act 1986 restricts the use of derivatives strictly to hedge against the impact of fluctuating external factors, such as interest rates.

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 on net interest income (NII) of a parallel shift in interest rates in both directions, is considered. In addition, the impact of alternative non-parallel scenarios upon NII and market value is also considered. Both are reported monthly to ALCo. The potential impact of Bank Rate reducing further to negative rates has been addressed this year with the negative shift in interest rates no longer floored at zero. Mitigating actions have been taken to ensure the resulting impact on NII remains within the Board's Risk Appetite.

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

The FCA has confirmed that support for LIBOR will be withdrawn by the end of 2021; SONIA has been chosen as the preferred benchmark rate in the UK. The Society has made good progress in transitioning its new exposures to this benchmark ahead of the now confirmed deadline.

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

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

Liquidity risk

The Society's primary purpose is to make loans secured by way of mortgages 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 30 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). Treasury maintains liquid resources at the greater of the Liquidity Coverage Ratio (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. The Society's NSFR is in excess of 100%, and the Society holds sufficient stable funding to meet this 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 Risk Committee 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 through the ICAAP that is approved by the Board. The ICAAP incorporates expected future capital requirements from changes in business volumes, mix of assets and activities within the context of current and anticipated future risks, and stressed scenarios. The ICAAP is reviewed by the PRA to set the Society's Total Capital Requirement.

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

The detailed breakdown of the Society's capital position can be found on page 26.

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 has regular dialogue with function managers and collates management information for review by executive management, the Operational, Conduct and Information 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.

A key focus during the year has been operational resilience, which is defined by the FCA and the Prudential Risk Authority (PRA) as 'the ability of firms to prevent, adapt, respond to, recover and learn from operational disruptions'. A centralised area has been established to co-ordinate efforts across the business in the development and delivery of the Society's Operational Resilience Plan and Business Continuity and Disaster Recovery Risk Management Framework, all important components against which to manage operational resilience.

The COVID-19 pandemic and subsequent lockdowns resulted in a number of changes to working practices, with a significant number of colleagues working from home, impacting the operational risk profile. Where required, controls have been strengthened by First Line business areas and more widely, the risk and control environment is being monitored by Second and Third Line functions. The Society has now conducted its business on the basis of this new operating model for over a year.

Retail conduct risk

Conduct risk is overseen by the FCA who continue to increase the regulatory focus on it. This continues to go beyond the previous focus on compliance with rules, on process and on treating customers fairly, to now embrace a holistic approach of how a firm organises itself and does business in order to ensure good customer outcomes.

The 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 defined principles and managed against a clearly articulated and Board approved, Risk Appetite Statement.

The UK General Data Protection Regulation (UK GDPR) was retained in UK law following the end of the Brexit transitional period on 1 January 2021. This law extends the rights of consumers in respect of their personal data and the Society has established robust processes to ensure compliance.

Model risk

Increasingly, across the sector, models are developed to assess, control and monitor risk more effectively, consistently and accurately. As businesses place more reliance upon the outputs of such models, particularly in reporting and decision-making processes, it becomes increasingly important that an effective framework is in place to manage model risk. The Society continues to develop its modelling capabilities and has integrated models into key business activities such as loan decisioning, loss assessment, strategic planning, product pricing and the assessment of capital requirements. The Society continues to manage its models in accordance with all applicable regulation. A process of governance has been established, applicable throughout the model life cycle, from initiation, through development, approval, implementation to ongoing monitoring and validation.

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, due to the ongoing disruption caused by COVID-19, leading to: • A reduction in interest rates from the current historical low, to zero, or even negative territory; • Reduced activity in the housing market and possible adverse impact from both lower lending and a potential fall in house prices; • Increased competition in the mortgage market and rising cost of retail funding; • Flat or declining economic growth and associated rising unemployment caused by the end of government support schemes; and • Increasing regulatory costs.	Business plans continue to model the impact of a range of scenarios and stress tests, which have been expanded to include potential macroeconomic impact of the COVID-19 pandemic. This is reflected within the IFRS 9, ICAAP and ILAAP assessments. These outcomes have Board visibility and are reviewed by a number of risk management committees. The Society is based in the UK and has no EU operations limiting its exposure to Brexit related operational risks.
Credit risk	Higher unemployment as a result of self-employed/wider business failures, end of government support schemes, and/or an increase in Bank Rate (leading to increased arrears and losses).	The Society's IFRS 9 provisioning and stress testing models assume a range of unemployment levels and varying interest rate scenarios, including a stressed outcome. Should an increase in arrears accounts occur, the Society would expand its credit services resource.
	Reduction in property prices (leading to a higher incidence of voluntary possessions and elevated shortfalls when properties sold).	The Society is committed to work with its borrowers to avoid possession wherever possible. In the event that possessions were to increase, the Society's regular reviews of its IFRS 9 provisions would reflect this increase.
	Low or flat economic growth (leading to further commercial property 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 and agents to lessen the impact.
Capital risk	Rules for calculating capital (amount required and/or amount held) are changed.	Maintain regular dialogue with the regulator and ensure full understanding of and compliance with the relevant rules.
Liquidity risk	Intensification of competition for retail and wholesale funding.	The Society has demonstrated the ability to attract new retail deposits this year, despite intense competition. The Society also has access to a diverse range of other funding sources, including wholesale options and funding provided through the Bank of England's Sterling Monetary Framework.
Margin compression risk	Reduction in returns from residential tracker mortgage assets whose rate is linked to Bank Rate with no floor.	The Society does not originate any new residential tracker mortgages and is managing down its Bank Rate Tracker book, replacing this with administered rate, or SONIA-linked assets.
	A relative increase in funding costs affecting variable rate retail funding, and in particular the administered rate retail balances.	The Society has recently developed, and embedded into the Risk Management Framework, a Margin Compression Stress (MCS) model. The MCS model quantifies what could happen to Net Interest Margin (NIM) following an increase in funding costs exclusively outside of other benchmark rates (Bank Rate, SONIA and LIBOR) and returns earned on existing mortgage assets (which are mostly linked to benchmark rates through swaps).

Risk category	Principal external threats	Society response and mitigants
Market risk	The risk of a reduction in the Society's net interest margin as a result of rising competition amongst deposit takers.	The Society operates within Board approved limits and monitors the exposure to increases in funding rates through ALCo.
	Falling HPI, leading to a reduction in the book value of West Bromwich Homes Limited properties.	No new homes have been added, containing the 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.
	Investment in core technology introduces execution risk with the benefits being delayed or not delivered.	The Society has a robust change management framework in place with regular updates provided to the Board.
	Single points of failure are identified, potentially impacting on critical services (mortgages and savings).	The Society is strengthening its operational resilience framework to facilitate greater alignment across the resilience disciplines to provide critical services to meet members' requirements and expectations. A centralised area has been established to ensure consistency across the business in this regard and co-ordinate cross-functional operational resiliency activities.
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. Cyberattacks remain a significant risk for financial institutions.	The Society recognises the need to maintain and develop its defences and responses in this area in order to protect the Society and maintain the trust of customers and the confidence of regulators. The Risk Committee are kept updated as to the maturity of the Society's cyber defences and controls; projects focused on the mitigation of risks associated with phishing and data loss are being progressed to further enhance the Society's defences.
Pension liability risk	Increased longevity, poor or volatile returns on scheme assets such as equities, gilts or bonds linked to long term interest rates (requiring the Society to contribute more to the scheme).	The defined benefit scheme is closed to new members and existing members are no longer accruing service benefits. The Scheme is subject to an actuarial review every three years to calculate the current position (surplus/deficit) and was finalised during the year. The Society has agreed a recovery plan with the Trustee Board which will see the current deficit closed within an appropriate timeframe set out by the pension regulator. The Scheme's investment advisors provide support on the strategies for the Scheme to the Trustee Board which aims to fulfil future funding requirements of the Scheme, as well as hedging interest rate and inflation risks to protect the pension liabilities against market volatility.
Retail conduct risk	Actions of third party suppliers leading to adverse customer outcomes.	A robust supplier framework is in place to oversee the activities of key suppliers.
Model risk	Regulatory requirements are amended by PRA with limited time/resource available for compliance.	The Society maintains close monitoring of regulatory publications and is involved with industry user groups to ensure appropriate visibility of emerging regulation on the horizon.

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
Chair of Risk Committee
27 May 2021

Board of Directors

John Maltby

Chair of the Board Appointed January 2021

John is an experienced Board member in Financial Services and with public, private, not-for-profit and private-equity owned businesses, also has experience in chairing purpose-led organisations – having been Chair of Good Energy for over 6 years. He is currently Chair of Allica Bank, Non-Executive Director of Nordea Bank and a Non-Executive Director for National Citizens Service (NCS) Trust. He was elected Chair of the Board on 26 May 2021 and is also Chair of the Nominations Committee and a member of the Remuneration Committee.

Julie Hopes MBA, ACIB

Senior Independent Director and Deputy Chair Appointed April 2016

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

Victoria Mitchell LLB (Hons)

Non-Executive Director Appointed April 2018

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

Ashraf Piranie FCCA, MBA

Group Finance & Operations Director Appointed March 2017

Ashraf has worked in financial services for most of his working life, including holding 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, until 2020, was 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 is a member of the governing council for the University of Kent. Mark is a member of the Audit, Risk, Nominations and Remuneration Committees. Mark will be stepping down from the Board of Directors at the Annual General Meeting in July 2021.

Lynne Shamwana BA FCA
Non-Executive Director Appointed February 2019
Lynne previously held the position of Chief Financial Officer at Virgin Care and before that Global Finance Director of Christie's, the international art auction house. She has held a variety of senior finance and management roles at Centrica plc, British Gas, Goldfish Bank plc and Alliance & Leicester plc. Lynne is a Director and Governor of the Southbank Centre and a fellow of the Institute of Chartered Accountants in England and Wales. Lynne chairs the Audit Committee and is a member of the Remuneration and Risk Committees.

David Thomas MSc, ACIB, FIB (Ireland)
Non-Executive Director Appointed August 2020
David joined the Board on 1 August 2020. He brings a wealth of experience in general management, risk management, internal audit and regulatory activities. David's previous roles include Chief Risk Officer at SMBC, EMEA Region, Chief Risk Officer RBS Plc, Corporate Banking Division and the Managing Director responsible for Ulster Banks Corporate and SME business on the Island of Ireland. David is a member of the Audit Committee and Chair of 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. He chairs the Executive Committee, the Member and Employee Councils, and is a member of the Society's Assets & Liabilities Committee. Jonathan is a past Chair of the Building Societies Association.

Directors' Report

The Directors are pleased to present their Annual Report, together with the audited Accounts, for the financial year ended 31 March 2021.

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 Chair's Statement on pages 4 to 5, the Chief Executive's Review on pages 6 to 9 and the Strategic Report on pages 10 to 35.

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 10 to 35.

Profit and capital

Profit before tax (on continuing operations) was £4.7m (2019/20: £1.5m). The capital position is set out in the Strategic Report on pages 26 to 27 and the Annual Business Statement on page 159. Detailed Pillar 3 capital disclosures for the current year are available on the Society's website.

Country-by-country reporting

Information in respect of the Capital Requirements (Country-by-Country Reporting) Regulations 2013, which place certain reporting obligations on financial institutions that are within the scope of the Capital Requirements Directive (CRD IV), is provided on page 155.

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 36 to 43.

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

Financial risk management objectives and policies

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

Mortgage arrears

At 31 March 2021 there were 52 residential and 7 commercial mortgage accounts (2019/20: 21 residential and 5 commercial mortgage accounts) where payments were 12 months or more in arrears based on current monthly repayments.

The total amount outstanding on these accounts was £92.4m (2019/20: £81.4m), of which £88.7m (2019/20: £80.2m) related to commercial mortgage accounts. The total amount outstanding represented 1.88% (2019/20: 1.72%) of mortgage balances. The amount of arrears was £16.2m (2019/20: £16.0m), relating primarily to commercial mortgage accounts. Appropriate provisions were made for potential losses on mortgages in accordance with the provisioning policy set out in note 1 to the accounts.

Directors

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

Julie Hopes

Victoria Mitchell

Mark Nicholls (Chair) (stepped down 5 March 2021)

Ashraf Piranie*

Mark Preston

Lynne Shamwana

James Turner (stepped down 23 July 2020)

Jonathan Westhoff*

David Thomas (appointed 1 August 2020)

John Maltby (Chair) (appointed 4 January 2021)

* 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 2021, the creditor days figure was 29 days (2019/20: 31 days). This conforms with the aim of paying creditors promptly.

Charitable donations

The Society raised significant sums through its community programme, affinity accounts and voluntary staff initiatives. These are outlined in the Corporate Social Responsibility section of the Strategic Report. The Society also donated £1,861 (2019/20: £850) to Midlands Air Ambulance Charity as a result of the number of votes received at the AGM in 2020.

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

Employees

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

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

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

Health and safety

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

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

The Society recognises the need to consult with its employees on health and safety issues. Accredited safety representatives are afforded every opportunity to effect this consultation and to receive training. A Health and Safety Committee is in place with representatives from across the business which usually meets every six months to review health and safety. This was overtaken during the year with more frequent meetings focused on ensuring the Society complied with government guidance regarding COVID-19.

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.

During the financial year the UK continued to be hit with the COVID-19 pandemic and it is important to outline the impact this had on the Society for both our members and our colleagues, including the steps we have taken to safeguard both our members and our colleagues. A COVID-19 compliant risk assessment, in line with government guidance for the head office and branches was published which clearly recorded the controls implemented for the protection/safety of both our colleagues and customers. This risk assessment was continuously reviewed and updated in response to changes in guidance. Throughout the crisis we have always adopted safety measures in line with the government guidance at the time, consulting with union representatives along the way.

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with the standards set out in note 1 to the accounts;
- assess the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

- use the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

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

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

Directors' statement pursuant to the Disclosure and Transparency Rules

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

- the financial statements, prepared in accordance with IFRS as set out in note 1 to the accounts, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the management reports in pages 10 to 43 include a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Group:

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

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

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

Going concern and business viability

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

Directors' responsibilities in respect of going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review on pages 6 to 9 and the Strategic Report on pages 10 to 35. 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 10 to 35 and the Risk Management Report on pages 36 to 43.

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

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

Furthermore, the Group's capital is in excess of the PRA minimum requirement under each of the scenarios considered. Scenarios considered continue to include a range of outcomes following the UK's departure from the European Union as well as scenarios considering the impact of COVID-19 on future economic activity and incorporate both financial and operational stresses.

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

Business viability statement

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

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

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

The MTP projects the Society's ongoing financial performance, capital and funding positions as satisfactory to the end of the three year plan period even in a range of adverse scenarios. Inherent uncertainty with regard to a number of factors, including 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 including where appropriate actions undertaken by government to support the economy to mitigate the impacts on capital and liquidity in such scenarios.

Through the ICAAP the Society models the impact of the Bank of England's Annual Cyclical scenario on the Society's Capital position, throughout which a surplus over Total Capital Requirements is maintained. The impact of the Annual Cyclical scenario is more severe than that anticipated in the current COVID-19 pandemic.

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 2024.

Auditor

Following a tender process, PwC was appointed as the Society's new external auditor (approved at the AGM in 2020) for the financial year commencing 1 April 2020.

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

John Maltby
Chair
27 May 2021

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 first version of the Code was published in 1992 by the Cadbury Committee. It defined corporate governance as ***"the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies…".*** This remains true today, but the environment in which companies, their shareholders and wider stakeholders operate continues to develop rapidly.

Over the years the Code has been revised and expanded to take account of the increasing demands on the UK's corporate governance framework. At the heart of this Code is an updated set of Principles that emphasise the value of good corporate governance to long-term sustainable success. The Code does not set out a rigid set of rules; instead it offers flexibility through the application of Principles and through 'comply or explain' Provisions and supporting guidance.

The Society is not required to 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.

For the financial year ending 31 March 2021 the Society met with all the main Principles of the Code except for the Principle of "Composition, Succession and Evaluation" and we have provided full explanations on page 51.

The 2018 Code's Main Principles	What the Society does to meet the Principles
Board Leadership and Company Purpose A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	The principal functions of the Society's Board include: • Providing entrepreneurial leadership; • Setting the Society's strategic aims and risk appetite; • Implementing and maintaining a framework of prudent and effective controls, which enables risk to be assessed and managed; • Ensuring the necessary financial and human resources are in place for the Society to meet its objectives; and • Reviewing management performance. The Board meets as often as is necessary to fulfil its responsibilities. During the last financial year the Board met on 15 occasions. Details of Director attendance at Board and Committee meetings can be found in the table at the end of this Report. The minutes of Board and Committee meetings record all material discussion and challenge, and are circulated to all Directors. The Chair of each Committee reports to the subsequent Board meeting the key matters discussed. A schedule of matters reserved to the Board is maintained and kept under regular review. The Board is supported by a number of Committees each with Board approved terms of reference. Details of the membership of those Committees and their key activities are reported elsewhere in this Report and Accounts. As a mutual, the Society does not have shareholders but is owned by its members; the Society seeks feedback from members in a number of ways, including: • Members' ViewPoint events held around the branch network. Due to government restrictions these events were cancelled for this financial year; • 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; • Customer Panel to canvass views on products and services and give feedback on how the Society can improve the way it operates; • Member Council. A consultative group comprising of West Brom members whose purpose is to articulate their views as a member of the Society back to the Society's Board and Senior Leadership Team on specific Board and Society matters; and • Employee Council. A consultative group comprising of West Brom employees whose purpose is to articulate views of the employees back to the Society's Board and Senior Leadership Team. Every member of staff has direct access to the Chief Executive by either email, phone or face to face. In addition, the Society has an 'Open Door' Policy which provides staff who may have serious concerns about any aspect of the Society's work, the ability to come forward and voice those concerns rather than overlooking a problem. This process provides the opportunity for staff to leave an anonymous message on a dedicated phone line. This policy has taken account of the Public Interest Disclosure Act 1998. During the year, the Committee received a report summarising the only report made under the 'Open Door' Policy. The report was fully investigated and was not regarding possible improprieties of financial reporting or other issues covered by the Public Interest Disclosure Act 1998.

<table>
<tr><th>The 2018 Code’s Main Principles</th><th>What the Society does to meet the Principles</th></tr>
<tr><td>Division of Responsibilities

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

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

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

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.</td><td>The role of the Chair includes establishing and developing an effective Board to provide support and constructive challenge to the management team.

The main responsibilities of the Chair are:
• Establish and develop an effective Board, including succession planning, recruitment and appraisal of Non-Executive Directors (NEDs);
• Lead the Board as a team;
• Ensure that the Board has agreed clear values and guiding principles;
• Plan and manage the Board’s business, including ensuring that appropriate committees are established with the right objectives and membership and that the Board has the right agenda and information;
• Ensure that the Board has established key priorities;
• Maintain and develop a productive and open relationship with the Chief Executive, agree the Chief Executive’s objectives and carry out regular appraisals. The Chair 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 during his tenure, the Chair was independent in character and judgement and met the independence criteria set out in the Code. Electing Mrs Hopes as Acting Chair, the Board again satisfied itself that Mrs Hopes met the independence criteria set out in the code.

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

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

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

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

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

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

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

The Board and its Committees are served by the Group Secretary who advises on governance matters and procedures. Directors have access to independent professional advice should that be required.</td></tr>
<tr><td>Composition, Succession and Evaluation

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

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

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.</td><td>The Nominations Committee is responsible for the recruitment of all Board members as well as members of the senior leadership team.

The Nominations Committee regularly reviews Board succession plans and uses a Skills Matrix as one of the tools to identify future role needs. The Society usually engages a professional recruitment firm to support the recruitment process for all Board appointments. Redgrave Partners was engaged during the year to support the recruitment of a new Board Chair. In the very latter part of the financial year the Society engaged the Lygon Group to support the recruitment of two NEDs.

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.

As a principle, the Society requires that Board members serve a maximum of nine years except where this may have a detrimental impact on the smooth running of the Board. In May 2020 Mr Preston served nine years on the Society’s Board. To ensure a smooth transition, Mr Preston (Risk Committee Chair) agreed to remain on the Board until the AGM in 2021 to enable a smooth handover to his successor. Now that the succession process has completed Mr Preston will step down from the Board at the conclusion of the AGM in July 2021.

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. The consideration of independence included the recognition that the tenure of the Chair is entering its eleventh year. The Chair was appointed to the Board on the 1st January 2010. Consequently, his tenure would, in the absence of explanation, finish in January 2019. However, as the entire Board was refreshed in 2010 it would not be appropriate to completely change the Board again at the same time, i.e. every nine years. Therefore the Society has, for some time, executed a succession plan which has seen new Board members join on a regular basis replacing a planned step down of Board members who joined in 2010. This activity, led by the Chair, has taken time to execute and continued with David Thomas joining the Board in August 2020 and James Turner standing down in July 2020.</td></tr>
</table>

The 2018 Code's Main Principles	What the Society does to meet the Principles
Composition, Succession and Evaluation (continued)	Now that this plan of rolling succession has been successfully implemented the Society Board has identified a new Chair with John Maltby being appointed to the Board in January 2021. The Society adopts the approach of an externally led evaluation every three years supplemented by annual internal evaluations in the intervening period. The next external evaluation was due to be undertaken during the financial year 2020/21. Due to the restrictions implemented in response to the pandemic, it was agreed for this external review to be moved to later in 2021, subject to restrictions being lifted. The most recent formal internal evaluation of Board effectiveness was undertaken in the latter part of the 2020/21 financial year. This evaluation was conducted internally, led by the Chair and supported by the Group Secretary. The process involved all Board members responding to a questionnaire issued by the Group Secretary. The process culminated in feedback to the Board.
Audit, Risk and Internal Control The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements. The board should present a fair, balanced and understandable assessment of the company's position and prospects. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	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 Chair 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. 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. The NEDs meet formally and informally without Executive Directors present. The Board has an Audit Committee comprising only 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 Chair 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. There have been five meetings of the Committee during the financial year 2020/21. 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 Risk Officer, Divisional Director Treasury & Finance 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; • Reviewed the external auditor's independence, objectivity and the effectiveness of the audit process, together with the remuneration and terms of engagement; • Recommended the appointment of the external auditor following a competitive tender process; • Confirmed that the Internal Audit function was appropriately resourced; and • Met privately with the Divisional Director Internal Audit and the external auditor.

The 2018 Code's Main Principles	What the Society does to meet the Principles
Remuneration Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The Board has established a Remuneration Committee, comprising only NEDs, which considers and makes recommendations to the Board on key remuneration decisions relating to Society staff who have been identified in the FCA's Remuneration Code as Code Staff. The Directors' Remuneration Report on pages 58 to 67 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.

Meetings of the Nominations Committee

The Nominations Committee which is chaired by the Society's Chair, met on four 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;
- Board Succession Planning, including NED recruitment; and
- Training, development and succession planning of the wider leadership team.

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

The 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 (retired 05.03.2021)	14 (15)	4 (4)			4 (4)
Julie Hopes	14 (15)	4 (4)		8 (8)	5 (5)
Victoria Mitchell	14 (15)		4 (5)	8 (8)	
Ashraf Piranie	15 (15)				
Mark Preston	14 (15)	4 (4)	5 (5)	8 (8)	5 (5)
Lynne Shamwana	15 (15)		5 (5)	8 (8)	5 (5)
James Turner (retired 23.07.2020)	7 (7)		2 (2)	2 (3)	
Jonathan Westhoff	15 (15)				
David Thomas (joined 01.08.2020)	7 (7)		3 (3)	5 (5)	
John Maltby (joined 01.01.2021)	4 (4)				

John Maltby
Chair
27 May 2021

Audit Committee Report

Membership and attendees

The Audit Committee is appointed by the Board and, at 31 March 2021, comprised four Non-Executive Directors:

- Lynne Shamwana (Chair);
- Victoria Mitchell;
- Mark Preston; and
- David Thomas.

The Chair, Chief Executive, Group Finance & Operations Director, Chief 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 relevant financial experience.

The Committee met five times during the year, with attendance as detailed on page 53. 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').

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

- the provision of assurance to the Board regarding the integrity of the financial statements of the Society, including its annual and any interim reports, reviewing significant financial reporting issues and judgements which they contain. Where Board approval is required for other statements containing financial information (for example significant financial returns to regulators and release of price sensitive information), whenever practicable the Audit Committee should review such statements first (without being inconsistent with any requirement for prompt reporting under the Listing Rules or Disclosure and Transparency Rules);
- assessing the adequacy and effectiveness of the Society's internal controls and risk management systems (including conduct risk);
- reviewing and approving the statements to be included in the Annual Report concerning internal controls and risk management;
- reviewing the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements follow proportionate and independent investigation of such matters and appropriate follow up action;
- monitoring and reviewing the effectiveness of the Society's Internal Audit function in the context of the Society's overall risk management system;
- approving the appointment and removal of the 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 terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
    - approval of their remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
    - monitoring the progress towards onboarding;
    - reviewing the results of the latest FRC annual inspection in respect of PricewaterhouseCoopers (PwC);
    - assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services; and
    - reviewing and approving in accordance with policy, any proposed employment of employees or former employees of the Society's auditor.

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

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

Areas of focus for the Committee in the year

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

a) Financial reporting issues and judgements

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

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

The key matters that the Committee considered in reviewing the 2020/21 financial statements are outlined below.

In light of COVID-19, the Committee considered the impact on the production of the financial statements and the audit process, and enhanced disclosures particularly around IFRS 9 and Going Concern.

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

- **Other provisions**
  The primary component of other provisions is an allowance for the estimated costs of payment protection insurance (PPI) redress. The remaining liability relates to the resolution of complaints released since the FCA deadline of 29 August 2019. The Committee has satisfied itself that the reported PPI provision at 31 March 2021 is reflective of the Society's claims experience to date.

- **Income recognition**
  In accordance with IFRS 9, the Group applies the effective interest method to recognise mortgage interest at a constant yield over the expected behavioural lives of the loans, with the key assumption being the expected loan redemption profile. The Committee reviewed analysis comparing key model assumptions with observed data, in order to determine that interest has been appropriately recognised in the financial statements. The Committee also considered the population of fees captured within the effective interest rate calculations and refinements made to models as a result of previous external audit findings.

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

- **Financial instruments at fair value through profit or loss and hedge accounting**
  Following the rules and guidance of IFRS 9, the Society classifies certain assets and liabilities as fair value through profit or loss. This category includes derivatives, employed to mitigate interest rate risk, and the closed portfolio of equity release mortgages. The Committee has reviewed the derivative valuation methodology and the application of IAS 39 to qualifying hedge relationships. The Committee has reviewed the changes made to the hedge accounting processes as a result of previous external audit findings.

  For equity release loans, where market observable data is not readily available, the calculation of fair value is based on a combination of historic redemption profile data and forecasts of economic variables such as house price growth. The Audit Committee noted the approach and assumptions used in the fair value calculations, confirming consistency with other accounting models where relevant. Based on this evaluation, the Committee is satisfied with the fair value of the equity release portfolio recorded in the Society's Statement of Financial Position at 31 March 2021.

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

- **Defined benefit pension liability**
  With respect to the Society's funded defined benefit pension scheme, the Audit Committee considered the key actuarial assumptions, as disclosed in note 31 to the accounts, and deemed them suitable for calculating the retirement benefit obligation at 31 March 2021. Based on information provided by the qualified independent actuary, the Committee is satisfied that an appropriate allowance has been made for the equalisation of Guaranteed Minimum Pension benefits between males and females, an obligation falling on all UK defined benefit schemes during the year.

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

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

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

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

b) Risk and internal control

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

Further details of actual risk management practices are provided in the Risk Management Report on pages 36 to 43. 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 2020/21 financial year provided reasonable assurance that there were no material breaches of control and that, overall, the Society maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code.

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

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

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

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

The Committee recommends an external 'effectiveness review' of Internal Audit every three years. A review was carried out during the financial year 2017/18, 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), 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.

The next assessment, originally planned for December 2020, has been rescheduled for December 2021 due to the impact of COVID-19.

c) External auditor

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

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

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

The Committee assesses the effectiveness of the external auditor annually, 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. An internal review is conducted in the years there is no external review.

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

On behalf of the Board

Lynne Shamwana
Chair of Audit Committee
27 May 2021

Directors' Remuneration Report

Annual Statement by the Chair of the Remuneration Committee

As Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report. This report includes our Remuneration Policy, details of pay and benefits for our Executive Directors and fees paid to Non-Executive Directors. It also clarifies how we intend to change our policy for 2021/22.

The first COVID-19 lockdown on 23 March 2020 took place in the last few weeks of the Society's 2019/20 financial year. Consequently, this enabled us to set objectives for the financial year 2020/21 that were attuned to the challenges likely to be presented by the pandemic. Whilst the usual review of business objectives took place, the Board also agreed an over-arching COVID-19 objective with the Executive (details are included on page 65). The Society's paramount concern was on keeping both employees and members safe, in line with government guidance, while maintaining an appropriate level of member and customer service.

Service to our members was maintained throughout the year. This was despite the inevitable operational challenges resulting from minimising the numbers of people in head office and branches, and the need for remote working for many employees. Full access to services was maintained, with particular emphasis on support for vulnerable customers and key workers including NHS members.

The Society also adapted at speed to a working model of circa 70% of employees working remotely. Additional protections were introduced, for those who were unable to work remotely, such as screens at branch till points, with clear guidance provided to customers using the branch to ensure social distancing at both sides of the counter.

Employee financial wellbeing has been a key focus throughout this period, and the Society decided not to take advantage of the government's furlough scheme. Full pay has been maintained regardless of the hours worked or ability of employees to operate effectively from home.

Recognising the potential impact on all colleagues of this new way of working, emphasis has been placed on health and wellbeing. The Society added to its list of accredited Mental Health First Aiders with professional training to ensure employees had the confidential support they may need. Managers also received mental health awareness training helping them to identify potential issues for team members, and build confidence in how to approach such issues.

The health and safety of those working remotely was also a key consideration, with assessments undertaken for those needing to work from home and, where required, Society equipment made available to support a safe working environment.

To assess and monitor how employees were coping with these new working arrangements, a wellbeing survey was conducted to give insight into how supported they felt, and to identify if any further support was needed. Feedback has been excellent, and employees have really appreciated the focus the Society has placed on their wellbeing throughout the past year.

Regular communication has been key throughout the year, keeping colleagues informed of the Society's actions and responses to government updates and guidance. Equally important has been creating the opportunity for colleagues to collaborate and connect, given the lack of natural interaction that occurs when working remotely. To address this, activities have been set up to bring people together, virtually, encouraging people to stay connected through the use of social media.

Turning to a review of the 2020/21 financial year, the Board continued to adopt voluntarily the relevant requirements of the UK Corporate Governance Code (the Code). During the year the Committee also reviewed the remuneration implications of the European Commission's Capital Requirements Directive V (CRD V) as proposed by the Prudential Regulation Authority. The review resulted in a number of changes, some of which were voluntarily adopted as best practice where the Committee considered they were appropriate to a building society of our size.

We have continued to publish the ratio of the Chief Executive's pay to the wider colleague population. A salary benchmarking review was undertaken for every role in the Society, against the market rate for that role. This is to ensure we pay fairly and competitively for the level of responsibility of every position. We are proud that our approach to pay is consistent for everyone. We are committed to paying all our employees the real living wage as an absolute minimum.

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

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

This report is presented in two sections:

- The Remuneration Policy – setting out the Remuneration Committee's forward-looking policy with regard to pay and benefits. The Society continues to strive to create an inclusive environment where diversity in all forms is encouraged and that the Society's Remuneration Policy is inclusive in both its design and practice.
- The Annual Remuneration Report – detailing the amounts earned by Directors in respect of the financial year ended 31 March 2021 and how the policy will operate for the year ending 31 March 2022.

All eligible members receive a copy of the Remuneration Report and are entitled to participate in the advisory vote on the Annual Remuneration Report.

The Chief Executive's Review reported that the Society performed strongly in 2020/21, with statutory profit before tax of £4.7m, an increase of 213% over the previous year. New residential lending increased by 38% to £784m which contributed to a 9% increase in the prime owner occupied book, while the Society's exposure to riskier commercial lending, a legacy exposure that is in run-off, was down 3% year on year. This commercial exposure has reduced by 77% since the strategy was introduced in March 2008.

As reported in 2019/20, Mr Ashraf Piranie took up the role of Group Finance & Operations Director on 13 March 2017. Mr Piranie was required to forego an element of his performance-related pay awards from his previous employer. The Board agreed, in line with Remuneration Policy, to compensate him for this. Accordingly, during the 2020/21 financial year, Mr Piranie received a payment of £13,171. This was validated with his former employer and is the final amount due of this compensation.

Salary increases

The Society introduced a revised approach to pay and reward for employees in 2020, ensuring all roles were externally benchmarked for salary. As a result, salary changes in 2021 have been focused on ensuring employees are paid in line with the market rate for their role and delivering a consistent approach to pay throughout the organisation. On this basis, salary increases for eligible employees ranged between 0% and 10%.

Consistent with this approach, a recent benchmarking exercise placed both Executive Directors' salaries below the average salary relative to the comparator organisations. The drift from the average was exacerbated by the voluntary action taken by the Executive Directors to waive their 2.5% pay increase in 2020/21 given the uncertainty regarding the potential economic impact of the pandemic at this time (March 2020). Consequently, given the benchmarking information, the performance of the Society under the Executive Directors' leadership, and the lack of pay award last year, the Remuneration Committee has agreed a pay increase of 4% from 1 April 2021. The Remuneration Committee recognises that even following this pay award the fixed pay remains below the current benchmarked level for the roles.

Furthermore, the Executive Directors' pension allowance reduced by a further 5% to 15%. This was in line with the planned alignment to the maximum allowance for all employees of 10.6% and means that the total fixed pay for the Executive Directors (including pension) remains at the level of the 2017/18 financial year.

Performance-related pay awards

The Executive Director performance-related pay award payable to the Chief Executive and Group Finance & Operations Director generated awards of 45.6% and 44.1% of salary respectively. These payments reflect the delivery of both personal and Society objectives including financial, risk, customer and people measures. Clearly a significant factor in reaching this decision has been the exemplary leadership displayed during the pandemic, in particular the focus on employee wellbeing, and ensuring a consistent service to members despite the challenging operating conditions. Further detail on the Society objectives is provided within page 65 of this report.

Deferred performance-related payments in relation to 2017/18, 2018/19 and 2019/20 for the Chief Executive, Group Finance & Operations Director, and former Group Finance & Operations Director have been approved for payment since the end of the 2020/21 financial year.

The Committee has not exercised its discretion in the Policy to increase the maximum performance-related pay award to 75% of basic salary. This will remain at 50% of salary for 2020/21.

Fees for the Chair and other Non-Executive Directors were reviewed for the 2020/21 financial year and no increases were applied. A further review for the 2021/22 financial year also resulted in no increase in fees for the Chair or any Non-Executive Director. Non-Executive Director fees (other than the Chair) have remained unchanged for the last eleven financial reporting periods.

Gender pay

In February 2021 the Society published its updated report on the gender pay gap. Addressing the drivers of the gender pay gap remains a key focus for the Society. Key to this is achieving a greater gender balance across the Society's pay range. It is pleasing to note the number of female employees who are regarded as successors for a number of senior positions. A full copy of the report can be found on the Society's website at www.westbrom.co.uk.

Julie Hopes
Chair of Remuneration Committee
27 May 2021

Remuneration Committee membership and responsibilities

Membership

The members of the Remuneration Committee during the financial year 2020/21 were: Julie Hopes, Mark Nicholls, Mark Preston, and Lynne Shamwana.

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 Chair of the Committee reports to the Board on all substantive issues discussed.

The Committee is required to meet at least twice a year. During the year there were five meetings, two of these meetings were attended by all Board members.

The Committee considered the following matters during the year:

- Determining the pay and benefits of Executive Directors, the Chair, Code Staff and other senior managers, with consideration for the increase in general basic salary for the wider colleague population, recommending such to the Board for approval, where appropriate;
- Determining the budget for salary and performance related pay for employees, including monitoring the effectiveness of a revised approach to pay, reward and recognition introduced in 2020, aligned with the ethos of a mutual organisation and the Society's overarching Purpose;
- Determining the level of performance-related pay in relation to the 2020/21 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 2021/22 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, and the proposal to voluntarily publish ethnicity pay gap data in 2021.

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

The Terms of Reference for the Committee were last updated in November 2020. The Terms of Reference are available on request from the Group Secretary.

Advisors

The Remuneration Committee seeks the advice of independent, external consultants, as required. During the 2020/21 year the Committee commissioned Deloitte to undertake a thorough benchmark of remuneration for Executive Directors, and to advise on the remuneration implications of the Capital Requirements Directive V.

Broader stakeholder views

As a mutual, we are committed to taking on board the views of our members and employees, ensuring the topics discussed at the Board are inclusive of these broader stakeholder perspectives. This also applies to remuneration practices, and during the year the Chair of the Remuneration Committee held discussions with the Member and Employee Councils in respect of Executive Director remuneration, seeking views on application of the policy for 2021/22. The resultant views expressed were communicated to the Remuneration Committee, to ensure the views of the Society's broader stakeholders were taken into account as part of decision making.

Section 1 – The Remuneration Policy

Background

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

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

The approach of the Remuneration Committee is to ensure that Executive Directors' remuneration is designed to promote the long-term success of the Society, with full consideration of other stakeholders such as members, employees 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 four year period from 2021/22 (previously three years), to allow the Remuneration Committee to review whether the payment remains appropriate, and providing the ability to reduce or cancel the payment. The Committee also has discretion to recover payments previously made (clawback), should information come to light subsequent to the payment being made, that would have resulted in the Committee withholding the payment, had this information been known.

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

Remuneration policy and practice

Components of remuneration

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

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

Section 1 – The Remuneration Policy (continued)

Component	Operation and performance metrics	Opportunity
Pension or pension allowance A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors are invited to join the Society's stakeholder pension plan or, as an alternative, be provided with a cash allowance (for example, where they have exceeded the annual or lifetime allowance).	For new Executive Directors, a pension contribution or cash allowance equal to the maximum pension contribution available to all other employees (for 2021/22: 10.6%). For the current Executive Directors, a cash allowance reducing to the maximum contribution available to all employees (currently 10.6%), over three years: • From April 2021 reducing to 15%; • From April 2022 reducing to 10.6% (or any such amount equal to the maximum for all employees should this change).*
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 (4X basic salary). Other benefits may be provided in individual circumstances.	Set at a level considered appropriate, as part of a review of total compensation arrangements.

*The UK Corporate Governance Code, updated in July 2018, includes a new provision that pension contributions for Executive Directors, or payments in lieu, should be 'aligned with' those available to the workforce.

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

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

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

Recruitment policy for Executive Directors

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

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

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

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

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

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

Recruitment policy for Non-Executive Directors

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

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

Service contracts

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

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

Policy on payment for loss of office

The 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.

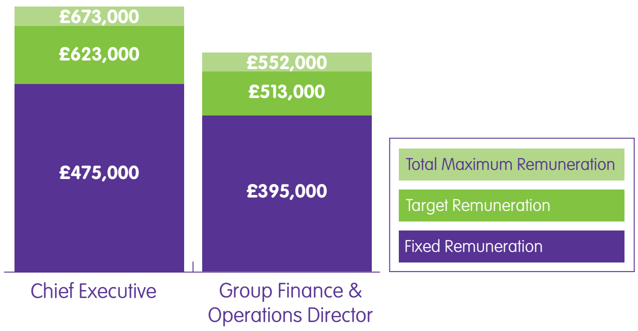
Employment conditions elsewhere in the Society

The pay and benefits of employees are considered annually by the Committee, which also determines the amount of general performance-related pay. The Society, subject to eligibility, offers a comprehensive range of benefits to employees, including pension, life assurance, health care, employee car scheme and performance-related pay. From April 2020 a revised approach to pay and reward was implemented, with a review of salary for each employee based on robust external benchmarking, taking into account the market rate and level of responsibility for each role. From April 2021, base salaries have increased between a range of 0% to 10%.

Remuneration scenarios

The following charts show the breakdown of the component parts of the remuneration package for Executive Directors for 2020/21 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 59).
- 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 59) only;
- Target remuneration is based on a performance-related award of 37.5% of basic salary; and
- Maximum award is based on a performance-related award of the maximum achievable which is 50% of basic salary (as stated on page 61 the Remuneration Committee has the right to allow an increase in performance-related award to 75% if deemed appropriate, with effect from financial year 2019/20).

Section 2 – Annual Report on Remuneration

Non-Executive Director fees (audited)

Non-Executive Director		Date appointed	**2020/21 Fees [1] £000**	**2020/21 Benefits [2] £000**	2019/20 Fees [1] £000	2019/20 Benefits [2] £000
Mark Nicholls	(Society Chair until 05/03/21)	01/01/10	**110**	-	120	4
Julie Hopes	(Remuneration Committee Chair. Deputy Chair from 01/08/19)	01/04/16	**70**	-	67	4
Mark Preston	(Risk Committee Chair)	18/05/11	**60**	-	60	4
Martin Ritchley	until 31/07/19 (Deputy Chair until 31/07/19)	01/09/09	-	-	23	3
James Turner	until 23/07/20	01/04/17	**19**	-	60	1
Victoria Mitchell		01/04/18	**50**	-	50	1
Lynne Shamwana	(Audit Committee Chair since 23/07/20)	01/02/19	**57**	-	50	3
David Thomas		01/08/20	**33**	-	-	-
John Maltby	(Society Chair)	04/01/21	**12**	-	-	-
Total			**411**	-	430	20

Notes:
1. Fees for Non-Executive Directors, at the rate shown above, have been in place since April 2010. Fees for the Society's Chair were last increased in April 2014.
2. 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 – 2020/21 (audited)

Executive Director		**Basic salary £000**	**Performance-related pay [1] £000**	**Pension £000**	**Other benefits £000**	**Total £000**
Jonathan Westhoff	(Chief Executive)	395	180	79	1	**655**
Ashraf Piranie	(Group Finance & Operations Director)	314	138	63	31 [2]	**546**
Total		**709**	**318**	**142**	**32**	**1,201**

Executive Director remuneration – 2019/20 (audited)

Executive Director		Basic salary £000	Performance-related pay [1] £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff	(Chief Executive)	395	150	99	15	659
Ashraf Piranie	(Group Finance & Operations Director)	314	116	78	60 [3]	568
Total		709	266	177	75	1,227

Notes:
1. Includes an element that is subject to deferral. The subsequent table headed 'Executive Director deferred performance-related pay payable in future years' details the amount due for payment, subject to review by the Committee at the appropriate time.
2. Mr Piranie received compensation of £13,171 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.
3. Mr Piranie received compensation of £42,000 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.

For 2020/21 a review of performance against objectives agreed at the start of the year has generated awards for Executive Directors of 45.6% for the Chief Executive and 44.1% for the Group Finance & Operations Director (against maximum performance-related pay of 50%) resulting in the amounts shown in the 'Executive Director remuneration – 2020/21' table. These payments are based on performance against both Society and personal objectives.

For Executive Directors, 30% of their maximum award is based on Society objectives and 20% on personal objectives. A review of performance against personal objectives agreed at the start of the year has generated awards of 19% for the Chief Executive and 17.5% for the Group Finance & Operations Director. Awards agreed against Society objectives are detailed below.

Society overall objectives for the year include:

Objectives	% of overall award potential	% of award achieved
Financial • Profitability • Net interest margin • Cost efficiency	15%	10%
Customer • Gross residential lending • Retention of lending • Customer satisfaction	20%	20%
Change • System enhancement and implementation	20%	17.5%
Risk • Operational resiliency • Ensuring robust credit risk capability for new lending products • Developing an internal ratings based approach to risk	15%	13.75%
People • Strengthening diversity • Enhancing and modernising pay and reward practices	10%	7.5%
Overall assessment by the Board of Executive performance	20%	20%
Overall Society objectives	100%	88.75%

However, as mentioned above, given the timing of the Society's year end it was relevant to set 2020/21 objectives that were attuned to the pandemic. Whilst the usual review of business objectives detailed above took place, the Board also agreed an over-arching COVID-19 objective with the Executive, and given the extended timeframe for the pandemic, this COVID-19 objective became the dominant feature of the year.

COVID-19 objective

To lead the Society through the pandemic, minimising the adverse impact on people, delivering operational resiliency through innovative solutions (both during the crisis and in preparation for the challenges of emerging out of the crisis), ensuring the long-term stability of the Society's franchise and prioritising the wellbeing of its people and its members/customers.

Key measures were developed under the following headings:

Acknowledging the 'key service' role of the West Brom, consider (and demonstrate) a 'people protection first' approach to operational resiliency and services delivery.

Prioritise financial stability over immediate business objectives.

Introduce positive people benefits that can emerge during the crisis.

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.

Section 2 – Annual Report on Remuneration (continued)

Executive Director deferred performance-related pay Payable in future years		Payable after year ending			
Executive Director	**Deferred from**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Jonathan Westhoff	2017/18	22	-	-	-
	2018/19	22	22	-	-
	2019/20	20	20	20	-
	2020/21	-	24	24	24
Total		**64**	**66**	**44**	**24**
Ashraf Piranie	2017/18	17	-	-	-
	2018/19	17	17	-	-
	2019/20	15	15	15	-
	2020/21	-	18	18	18
Total		**49**	**50**	**33**	**18**

Chief Executive Officer (CEO) pay ratio

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

We have chosen to use the government's preferred methodology (option A) which requires calculation of total full-time equivalent of pay and benefits of all its UK employees for the financial year, and compare the median, 25th and 75th percentiles against the CEO single figure. The ratios shown below are based on the Society's employee base as at 31 March 2021.

Year	Method	25th percentile	Median	75th percentile
2020-2021	Option A	31:1	23:1	16:1
2019-2020	Option A	31:1	24:1	16:1

Remuneration element	25th percentile (£)	Median (£)	75th percentile (£)
Total Pay and benefits	21,076	28,322	41,909
Salary	19,684	26,754	36,225

Statement on member voting at the 2020 AGM including a binding vote

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

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

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

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

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

At the 2019 AGM members voted on one resolution, the results of which are shown below:

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

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Report	15,835	91%	1,566	386

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

Application of the Remuneration Policy for 2021/22

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

The Remuneration Committee undertook a benchmarking exercise of remuneration for Executive Directors in March 2021. The Committee has chosen not to apply its discretion to increase the performance-related pay award.

The annual salary review for employees was based on robust benchmarking data for every role, taking into account the level of responsibility and the external market rate for each position. This constitutes a change from previous practice of applying a standard increase across all roles, and resulted in increases ranging between 0% and 10% from 1 April 2021.

At the start of the 2020 financial year, the Executive Directors voluntarily opted to reduce their existing pension arrangements to align with the rest of the employees. It was agreed that this would form part of a three year strategy for existing Executive Directors, with reductions as follows:

- From April 2020 reduced from 25% to 20%;
- From April 2021 reducing to 15%;
- From April 2022 reducing to 10.6% (or any such amount equal to the maximum contribution available to all employees at this date).

Non-Executive Directors, including the Chair, received no increase in fees from April 2020.

Clearly the Society has a very significant challenge ahead, although it is very well positioned to deal with it. However, whilst uncertainties remain, we are confident in the continuing strength of our balance sheet and financial resilience. Strategies deployed over the past 10 years have demonstrated the ability to manage even the most extreme of crisis very effectively. The Society has a management team with a proven track record in this context. The Committee's focus next year will be based on the evidence to support demonstration of such recovery.

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

Julie Hopes
Chair of Remuneration Committee
27 May 2021

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 March 2021 and of the Group's and the Society's income and expenditure and the Group's and the Society's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Society statements of financial position as at 31 March 2021; the Group and Society income statements and statements of comprehensive income, the Group and Society statements of cash flows, and the Group and Society statements of changes in members' interests and equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

As explained in Note 1 to the annual accounts, the Group, in addition to applying international accounting standards in conformity with the requirements of the Building Societies Act 1986, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

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

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the Group in the period from 1 April 2020 to 31 March 2021.

Our audit approach

Overview

Materiality	• £3.89m - Group financial statements • *Based on 1% of Group net assets*

	• £3.8m - Society financial statements • *Based on 1% of Society net assets*
Scoping	• We conducted all of our audit work over the Group and its components using one audit team, using information obtained remotely from the Groups' staff and records based in West Bromwich. • Audit procedures were performed over all material account balances and financial information in the Society due to its significance to the Group's financial performance and position. • The Group consists of the Society and thirteen subsidiaries. Our audit procedures provide coverage over 100% of the interest income of the Group and 100% of the other income balance.
Key audit matters	• Risk of inappropriate judgements and estimates relating to the significant management judgment involved in determining the appropriateness of account specific scenarios and associated weightings given the historic facts and circumstances in each account within the Commercial loan portfolio (Group). • Risk of inappropriate judgements and estimates relating to staging, future economic assumptions and post model adjustments applied to the expected credit loss (ECL) allowance on loans and advances to customers in the residential portfolios and also judgements applied to equity release and second charge portfolios (Group and Society). • Risk of error in the application of hedge accounting for swaps and hedge effectiveness adjustments made in relation to the interest rate hedges entered into (Group and Society). • Risk of material misstatement in the valuation of investment property through inappropriate assumptions applied in the year end valuation (Group). • Risk of incorrect assumptions applied in the valuation of the year end defined benefit pension liability, in particular selection of appropriate mortality, discount rate and inflationary assumptions (Group and Society). • Impact of COVID-19 (Group and Society).

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

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

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

- Review of the financial statement disclosures to underlying supporting documentation;
- Review of correspondence with and reports to the regulators;
- Testing significant accounting estimates (see key audit matters below);

- Testing of the assumptions used within the effective interest rate method for recognising interest income for their appropriateness;
- Testing of journal entries which contained unusual account combinations back to corroborating evidence;
- Discussions with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud; and
- Specific audit procedures over non-interest revenue streams significant to the Group accounts.

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

Key audit matters

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

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

Risk of inappropriate judgements and estimates relating to staging, future economic assumptions and post model adjustments applied to the expected credit loss (ECL) allowance on loans and advances to customers in the residential portfolios and also judgements applied to equity release and second charge portfolios

See notes 14 and 33 to the financial statements for the directors' IFRS 9 impairment disclosures.

We focused our audit work on the areas of the methodology and assumptions that we identified as most judgemental. Given the ongoing impact of COVID-19 in the current year, there is increased uncertainty as to the future economic outlook, particularly UK house prices and unemployment, which increases the estimation uncertainty in the ECL.

For the residential book ECL, the key assumptions were:

- The key economic variables and scenarios used in the model, particularly the severity and likelihood of the base and downturn economic scenarios that form part of the forward looking modelling of default rates and house price values and their impact on ECL;
- The post model adjustments made to account for areas of credit risk not captured within the base modelling solution, including those introduced as a result of additional risk identified in the valuation of properties impacted by cladding.

For the equity release and second charge portfolios the key assumptions were:

- The valuation of the collateral held as security;
- The portfolio specific discounts and discount rates applied; and
- The assumptions around the timing of cash flows, particularly within the equity release portfolio.

We performed the following procedures to address the areas of judgement and estimates used in the calculation of residential ECL:

- We performed a walkthrough of management's process of determining the residential expected credit loss. We tested the design and implementation of key controls over the selection, review and approval of assumptions used in determining the ECL, and over model performance monitoring, including periodic model review and approval of model changes.
- We compared the forward-looking economic assumptions to independent forecasters. The severity and magnitude of the scenarios were compared to external forecasts and data from historical economic downturns, and the sensitivities of the scenarios were considered.
- We tested whether the economic scenarios used were appropriately severe so as to capture nonlinear effects in credit losses which may arise in economic downturns and weighted appropriately given the current economic environment under COVID-19.
- We tested the appropriateness of the post model adjustments made by management, including testing the underlying assumptions used in these adjustments and consideration of completeness of adjustments made through review of ECL coverage and comparison with wider industry levels.

We performed the following procedures for the second charge and equity release portfolios:

- We tested the valuations of collateral held as a security by agreeing to third party valuations (where available), market data and recent sales.
- We tested the appropriateness of the portfolio specific assumptions made by management considering historical and industry data.
- We considered the assumptions which determine the expected timing of cash flows in the equity release modelling and their comparison to expected mortality data.

Based on the procedures performed and the evidence obtained, we found management's judgements used in the determination of the residential ECL to be reasonable.

Risk of error in the application of hedge accounting for swaps and hedge effectiveness adjustments made in relation to the interest rate hedges entered into

Operations of the Group expose them to significant interest rate risk as a result of a mismatch between fixed and floating interest rate cash flows.

Management have sought to mitigate the risk of future movements in market interest rates affecting profitability through the use of derivative financial instruments in the form of interest rate and cross currency swap contracts. Management designates these swaps under hedge accounting arrangements to reduce the effect of future

We performed the following procedures to address the risks in relation to hedge accounting:

- We performed a walkthrough of management's end to end process for performing hedge accounting in relation to fair value hedges.
- We obtained and read the hedge accounting documentation to evaluate whether it was compliant with the accounting requirements of International Accounting Standard 39 'Financial Instruments'. This included testing of a sample of hedge designations and inspection of a sample of hedge documentation.

movements in interest rates on amounts recorded in the financial statements.

Where a designated hedge accounting relationship is formed, accounting rules allow the Group's fixed rate mortgage book to be re-measured for fair value changes attributable to the hedged risk.

We focused on this area as hedge accounting rules are complex. Given the size of both the fixed interest mortgages and interest rate swaps held on the balance sheet, this gives rise to an increase in the risk of error in application.

The Group's disclosures are given in Note 12.

- We independently re-performed a sample of hedge effectiveness tests performed by management, considering both prospective and retrospective testing.
- We also re-performed the valuation of a sample of derivatives and underlying hedged items and tested the reconciliation between the hedging models and the amounts recorded in the general ledger.

Based on the evidence obtained, we determined the application of hedge accounting to be appropriate.

Risk of material misstatement in the valuation of investment property through inappropriate assumptions applied in the year end valuation

The Group holds a portfolio of investment properties within the West Bromwich Homes Limited subsidiary. In line with the requirements of the accounting standard these properties are held at fair value with changes in the fair value recognised within the income statement. Further disclosure is given within note 17 of the financial statements.

Management calculates the year end valuation with the assistance of external valuation experts who assess the current valuation through comparison to expected market values at the balance sheet date.

In certain situations, management makes adjustments to the valuations provided by their experts to capture specific risks identified.

Given the overall valuation of the investment property portfolio at the year end and the potential reasonable range of reasonable valuations we determined that this represents a significant risk within our audit plan.

Our procedures over the year end valuation included:

- We performed a walkthrough of management's process of determining the fair value of the property portfolio.
- We evaluated the competence, objectivity and independence of experts engaged by the directors to assist with the property valuations and review of historical performance of the valuations against actual sales.
- We engaged our internal Real estate valuation experts to review the work performed by management's experts and assessed the reasonableness of any differences in the valuations used with regard to externally available sources (such as land registry data).
- We tested adjustments to the expert valuation made by management, including assumed costs in relation to cladding, back to supporting documentation or evidence.

Based on the evidence obtained, we determined the methodologies, inputs and assumptions used in the investment property valuations to be materially appropriate.

Risk of incorrect assumptions applied in the valuation of the year end defined benefit pension liability, in particular selection of appropriate mortality, discount rate and inflationary assumptions

The Group and Society operates a defined benefit pension scheme for certain staff members. The present value of the schemes is materially sensitive to a number of judgements including the discount rate, inflation and mortality. Setting these judgements is complex and small changes can have a significant impact on the year end liability valuation.

Given the scheme assets are invested with an external party in diversified market funds, with a portion of the liabilities also insured, we deem the significant risk to relate specifically to the liability valuation of the scheme.

We focused our work on the judgements made by management, in conjunction with third party actuaries, relating to the discount rate, inflation rate and pensioner mortality.

The Group's disclosures are given in note 31 including relevant sensitivity disclosures for the key assumptions used by the scheme actuary in the valuation of the liability.

We performed the following procedures to address the valuation risks in relation to the year end defined benefit pension liability:

- We independently assessed, using our actuarial experts, the discount rate, inflation rate and mortality assumptions used and compared these to observable market rates at the year end. We assessed instances where management's judgements and that of their experts differed from market consensus and assessed the reasonableness of explanations for these deviations.
- We considered the independence, objectivity and competence of the third party actuaries engaged by management to perform their valuation.
- We considered the recognition of the surplus by the Society with reference to the requirements of the accounting standards and terms between the Society and the Trustee.

From the evidence obtained, we found the assumptions used by management in the actuarial valuations for pension obligations to be appropriate.

Impact of COVID-19

The COVID-19 pandemic has disrupted financial markets and normal patterns of human behaviour during the year. This is translating into adverse impacts on the UK economy and uncertainty in the UK housing market. In response, the UK Government and the financial services regulators have applied measures to support borrowers and firms alike throughout the period.

We considered the impact of COVID-19 to be an area of greater risk due to the potential for it to have pervasive implications on the Group and Society.

The directors' disclosures explaining how the pandemic has given rise to risks within the Society are included in the chief executive and financial reviews. Disclosures relating to the appropriateness of the use of the going concern basis of preparation and the considerations made by the directors' when drawing this conclusion are given in note 1.

The directors have specifically considered the impact on the financial statements as it gives rise to greater levels of uncertainty in the following areas;

- The going concern assessment of the Society, and the Group and Society's longer-term financial sustainability; and
- The allowance for impairment of loans and advances to customers (considered within the key audit matters above).

In assessing the Directors' consideration of the impact of COVID-19 on the financial statements, we have undertaken the following audit procedures:

- We discussed the impact of COVID-19 on the Group and Society's financial statements and operations with the Audit Committee during the year.
- We critically assessed the directors' conclusions on their going concern assessment and their consideration of the impact of COVID-19 on the financial statements. We reviewed the impact of management's stress test scenarios and considered the likelihood of successful implementation of management actions to mitigate the impacts.
- We challenged the year end value of impairment recognised on the Group's loans and advances to customers given the potential impact of the pandemic on customer behaviour, and audited the appropriateness of the assumptions used within their forecasting, as explained by the above key audit matters.
- We considered the appropriateness of the disclosures made by the directors as it relates to the potential impact of COVID-19 on the Group.

As a result of these procedures, we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of the financial statements.

How we tailored the audit scope

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

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

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

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

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

Materiality

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

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

	Society financial statements	Group financial statements
Overall materiality	£3.8m	£3.89m
How we determined it	1% of net assets.	1% of net assets.
Rationale for benchmark applied	We believe that the subscribed capital and reserves ("net assets") is the most appropriate benchmark to use for the Society and Group, whose strategy is not one of profit maximisation. Regulatory capital is a key benchmark for management and regulators and hence we continue to use net assets, a proxy to regulatory capital, as our benchmark.	

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £3k and £1.4m.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to £1.9m for the Society financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.19m (Group and Society) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Review and challenge of key assumptions used by the directors in their determination of the going concern of the Group and Society;
- Review of key regulatory returns in relation to liquidity and capital and consideration of the stress testing performed;
- Consideration as to whether our audit work had identified events or conditions which may give rise to uncertainty as to the Group's future ability to trade;
- Review of legal and regulatory correspondence to ensure that any compliance issues which may impact the going concern of the Group had not been identified; and
- Considered the impact of COVID-19 on the business, including key subsidiaries, and whether any further risks going concern have arisen as a result.

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

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

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

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

Reporting on other information

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

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

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

Building Societies Act 1986 – Opinion on Annual Business Statement and Directors' Report

In our opinion, based on our work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the year ended 31 March 2021 is consistent with the accounting records and the financial statements; 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of this report

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

Other required reporting

Building Societies Act 1986 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 11 September 2020 to audit the financial statements for the year ended 31 March 2021 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 31 March 2021.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
27 May 2021

Income Statements

for the year ended 31 March 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Interest receivable and similar income					
Calculated using the effective interest method		**99.4**	118.6	**99.9**	119.0
On instruments measured at fair value through profit or loss		**(15.2)**	(4.5)	**(12.5)**	(2.9)
Total interest receivable and similar income	2	**84.2**	114.1	**87.4**	116.1
Interest expense and similar charges	3	**(26.5)**	(55.0)	**(29.7)**	(55.7)
Net interest receivable		**57.7**	59.1	**57.7**	60.4
Fees and commissions receivable		**2.0**	2.3	**2.3**	2.8
Other operating income	4	**3.7**	4.0	**(0.1)**	-
Fair value gains/(losses) on financial instruments	5	**3.4**	(8.5)	**1.8**	(4.7)
Gain on deconsolidation of commercial securitisations		**-**	5.3	**-**	-
Write down of goodwill	16	**-**	(0.5)	**-**	-
Total income		**66.8**	61.7	**61.7**	58.5
Administrative expenses	6	**(39.1)**	(38.2)	**(36.4)**	(36.1)
Depreciation and amortisation	16,18	**(8.1)**	(8.0)	**(8.1)**	(8.0)
Operating profit before revaluation gains, impairment and provisions		**19.6**	15.5	**17.2**	14.4
Gains on investment properties	17	**4.0**	4.2	**-**	-
Impairment on loans and advances	14	**(18.8)**	(17.5)	**(0.1)**	(1.2)
Provisions for liabilities	25	**(0.1)**	(0.7)	**(0.1)**	(0.5)
Provisions against investments in subsidiary undertakings	15	**-**	-	**(29.7)**	(31.4)
Profit/(Loss) before tax		**4.7**	1.5	**(12.7)**	(18.7)
Taxation	9	**0.4**	-	**(0.4)**	0.6
Profit/(Loss) for the financial year		**5.1**	1.5	**(13.1)**	(18.1)

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

The notes on pages 84 to 154 form part of these accounts.

Statements of Comprehensive Income

for the year ended 31 March 2021

	Notes	Group 2021 £m	Group 2020 £m
Profit for the financial year		**5.1**	1.5
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation gains/(losses) taken to equity		**3.7**	(2.2)
Taxation	30	**(0.7)**	0.4
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	31	**(0.3)**	(0.7)
Taxation	30	**0.1**	0.3
Other comprehensive income for the financial year, net of tax		**2.8**	(2.2)
Total comprehensive income for the financial year		**7.9**	(0.7)

	Notes	Society 2021 £m	Society 2020 £m
Profit/(Loss) for the financial year		**(13.1)**	(18.1)
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation gains/(losses) taken to equity		**3.7**	(2.2)
Taxation	30	**(0.7)**	0.4
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	31	**(0.3)**	(0.7)
Taxation	30	**0.1**	0.3
Other comprehensive income for the financial year, net of tax		**2.8**	(2.2)
Total comprehensive income for the financial year		**(10.3)**	(20.3)

The notes on pages 84 to 154 form part of these accounts.

Statements of Financial Position

at 31 March 2021

	Notes	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 Restated* £m
Assets					
Cash and balances with the Bank of England	10	**316.5**	263.5	**316.5**	263.5
Loans and advances to credit institutions		**107.3**	123.6	**64.6**	78.6
Investment securities	11	**276.5**	285.3	**785.4**	831.5
Derivative financial instruments	12	**6.5**	4.5	**6.5**	4.5
Loans and advances to customers	13	**4,852.3**	4,691.6	**3,393.3**	3,155.9
Current tax assets		**0.2**	0.4	**0.2**	0.4
Deferred tax assets	19	**21.3**	20.4	**14.4**	13.0
Trade and other receivables	20	**2.6**	4.1	**2.6**	3.7
Investments	15	**-**	-	**1,081.8**	1,136.3
Intangible assets	16	**16.3**	16.3	**16.3**	16.3
Investment properties	17	**143.0**	138.9	**-**	-
Property, plant and equipment	18	**24.9**	28.2	**24.9**	28.2
Retirement benefit asset	31	**1.1**	-	**1.1**	-
Total assets		**5,768.5**	5,576.8	**5,707.6**	5,531.9
Liabilities					
Shares	21	**4,234.1**	3,846.1	**4,234.1**	3,846.1
Amounts due to credit institutions		**751.8**	883.8	**752.1**	858.8
Amounts due to other customers	22	**90.9**	94.6	**279.6**	354.7
Derivative financial instruments	12	**40.5**	54.2	**39.1**	51.6
Debt securities in issue	23	**217.9**	266.3	**-**	1.0
Deferred tax liabilities	19	**7.6**	6.7	**2.1**	1.7
Trade and other payables	24	**12.4**	15.2	**11.5**	14.1
Provisions for liabilities	25	**0.6**	0.6	**0.5**	0.5
Retirement benefit obligations	31	**-**	2.7	**-**	2.7
Subordinated liabilities	28	**22.8**	22.8	**22.8**	22.8
Total liabilities		**5,378.6**	5,193.0	**5,341.8**	5,154.0
Members' interests and equity					
Core capital deferred shares	27	**127.0**	127.0	**127.0**	127.0
Subscribed capital	26	**7.8**	8.9	**7.8**	8.9
General reserves		**250.7**	246.5	**226.6**	240.6
Revaluation reserve		**3.3**	3.3	**3.3**	3.3
Fair value reserve		**1.1**	(1.9)	**1.1**	(1.9)
Total members' interests and equity		**389.9**	383.8	**365.8**	377.9
Total members' interests, equity and liabilities		**5,768.5**	5,576.8	**5,707.6**	5,531.9

The accounting policies and notes on pages 84 to 154 form part of these accounts.

*2020 investment securities and amounts due to other customers have been restated as explained in note 40.

Approved by the Board of Directors on 27 May 2021 and signed on its behalf by:

John Maltby
Chair

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance & Operations Director

Statements of Changes in Members' Interests and Equity

for the year ended 31 March 2021

Group	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2020	**127.0**	**8.9**	**246.5**	**3.3**	**(1.9)**	**383.8**
Profit for the financial year	-	-	5.1	-	-	**5.1**
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(0.2)	-	-	**(0.2)**
Fair value through other comprehensive income investments	-	-	-	-	3.0	**3.0**
Total other comprehensive income	**-**	**-**	**(0.2)**	**-**	**3.0**	**2.8**
Total comprehensive income for the year	**-**	**-**	**4.9**	**-**	**3.0**	**7.9**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(1.3)**	**-**	**-**	**(1.3)**
Buyback and cancellation of subscribed capital	**-**	**(1.1)**	**0.6**	**-**	**-**	**(0.5)**
At 31 March 2021	**127.0**	**7.8**	**250.7**	**3.3**	**1.1**	**389.9**

for the year ended 31 March 2020

Group	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2019	127.0	8.9	246.0	3.3	(0.1)	385.1
Profit for the financial year	-	-	1.5	-	-	1.5
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(0.4)	-	-	(0.4)
Fair value through other comprehensive income investments	-	-	-	-	(1.8)	(1.8)
Total other comprehensive income	-	-	(0.4)	-	(1.8)	(2.2)
Total comprehensive income for the year	-	-	1.1	-	(1.8)	(0.7)
Distribution to the holders of core capital deferred shares	-	-	(0.6)	-	-	(0.6)
At 31 March 2020	127.0	8.9	246.5	3.3	(1.9)	383.8

Statements of Changes in Members' Interests and Equity

for the year ended 31 March 2021

Society	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2020	**127.0**	**8.9**	**240.6**	**3.3**	**(1.9)**	**377.9**
Profit for the financial year	-	-	(13.1)	-	-	**(13.1)**
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(0.2)	-	-	**(0.2)**
Fair value through other comprehensive income investments	-	-	-	-	3.0	**3.0**
Total other comprehensive income	**-**	**-**	**(0.2)**	**-**	**3.0**	**2.8**
Total comprehensive income for the year	**-**	**-**	**(13.3)**	**-**	**3.0**	**(10.3)**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(1.3)**	**-**	**-**	**(1.3)**
Buyback and cancellation of subscribed capital	**-**	**(1.1)**	**0.6**	**-**	**-**	**(0.5)**
At 31 March 2021	**127.0**	**7.8**	**226.6**	**3.3**	**1.1**	**365.8**

for the year ended 31 March 2020

Society	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2019	127.0	8.9	259.7	3.3	(0.1)	398.8
Loss for the financial year	-	-	(18.1)	-	-	(18.1)
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(0.4)	-	-	(0.4)
Fair value through other comprehensive income investments	-	-	-	-	(1.8)	(1.8)
Total other comprehensive income	-	-	(0.4)	-	(1.8)	(2.2)
Total comprehensive income for the year	-	-	(18.5)	-	(1.8)	(20.3)
Distribution to the holders of core capital deferred shares	-	-	(0.6)	-	-	(0.6)
At 31 March 2020	127.0	8.9	240.6	3.3	(1.9)	377.9

The notes on pages 84 to 154 form part of these accounts.

Statements of Cash Flows

for the year ended 31 March 2021

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Net cash inflow/(outflow) from operating activities (below)	**82.5**	140.3	**(23.7)**	(5.6)
Cash flows from investing activities				
Purchase of investment securities	**(37.5)**	(121.8)	**(37.5)**	(121.8)
Proceeds from disposal of investment securities	**54.0**	124.7	**91.3**	169.3
Proceeds from disposal of investment properties	**0.2**	-	**-**	-
Purchase of property, plant and equipment and intangible assets	**(5.2)**	(5.6)	**(5.2)**	(5.7)
Proceeds from disposal of property, plant and equipment	**-**	0.7	**-**	0.7
New funding to subsidiaries	**-**	-	**(44.4)**	(42.7)
Repayment of funding from subsidiaries	**-**	-	**67.6**	89.3
Net cash flows from investing activities	**11.5**	(2.0)	**71.8**	89.1
Cash flows from financing activities				
Repayment of debt securities in issue	**(49.2)**	(57.5)	**(1.0)**	-
Interest paid on subordinated liabilities	**(2.5)**	(2.5)	**(2.5)**	(2.5)
Payment of lease liabilities	**(0.5)**	(0.6)	**(0.5)**	(0.6)
Distribution to the holders of core capital deferred shares	**(1.3)**	(0.6)	**(1.3)**	(0.6)
Buyback and cancellation of subscribed capital	**(0.3)**	-	**(0.3)**	-
Net cash flows from financing activities	**(53.8)**	(61.2)	**(5.6)**	(3.7)
Net increase in cash	**40.2**	77.1	**42.5**	79.8
Cash and cash equivalents at beginning of year	**375.8**	298.7	**330.8**	251.0
Cash and cash equivalents at end of year	**416.0**	375.8	**373.3**	330.8

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Cash in hand (including Bank of England Reserve account)	**304.7**	252.2	**304.7**	252.2
Loans and advances to credit institutions	**107.3**	123.6	**64.6**	78.6
Investment securities	**4.0**	-	**4.0**	-
	416.0	375.8	**373.3**	330.8

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2021, amounted to £11.8m (2019/20: £11.3m). The movement in these balances is included within cash flows from operating activities.

The Group's loans and advances to credit institutions includes £41.7m (2019/20: £43.2m) of balances belonging to the Society's structured entities which are not available for general use by the Society.

Statements of Cash Flows (continued)

for the year ended 31 March 2021

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Cash flows from operating activities				
Profit/(Loss) before tax	4.7	1.5	(12.7)	(18.7)
Adjustments for non-cash items included in profit/(loss) before tax				
Impairment on loans and advances	18.8	17.5	0.1	1.2
Depreciation and amortisation	8.1	8.0	8.1	8.0
Disposal of property, plant and equipment	-	(0.2)	-	(0.2)
Revaluations of investment properties	(4.0)	(4.2)	-	-
Gain on deconsolidation of commercial securitisations	-	(5.3)	-	-
Write down of goodwill	-	0.5	-	-
Changes in provisions for liabilities	0.1	(0.8)	0.1	(0.4)
Provisions against investments in subsidiary undertakings	-	-	29.7	31.4
Interest on subordinated liabilities	2.5	2.5	2.5	2.5
Fair value losses on equity release portfolio	0.2	0.1	0.2	0.1
Interest paid on lease liabilities	0.1	0.1	0.1	0.1
Changes in fair value	13.6	3.4	9.4	2.1
	44.1	23.1	37.5	26.1
Changes in operating assets and liabilities				
Loans and advances to customers	(193.3)	31.3	(247.1)	(64.1)
Loans and advances to credit institutions	(0.5)	(2.5)	(0.5)	(0.8)
Derivative financial instruments	(15.7)	20.2	(14.5)	17.5
Shares	388.0	(145.1)	388.0	(145.1)
Deposits and other borrowings	(134.9)	216.8	(181.8)	163.8
Trade and other receivables	1.5	(0.4)	1.0	(0.1)
Trade and other payables	(2.3)	0.9	(1.9)	1.1
Retirement benefit obligations	(4.1)	(2.9)	(4.1)	(2.9)
Subscribed capital	(0.3)	-	(0.3)	-
Tax paid	-	(1.1)	-	(1.1)
Net cash inflow/(outflow) from operating activities	82.5	140.3	(23.7)	(5.6)

The notes on pages 84 to 154 form part of these accounts.

Notes to the Accounts

1. Accounting policies

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

Basis of preparation

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

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

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

Going concern

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

The Society's Medium Term Plan (MTP) has been updated to reflect the uncertainty caused by COVID-19, including the potential impacts on the UK housing and mortgage markets and the wider economy. Through the Internal Capital Adequacy Assessment Process (ICAAP) the Society models the impact of the Bank of England's Annual Cyclical scenario on the Society's Capital position, throughout which a surplus over Total Capital Requirements is maintained. Through the Society's Internal Liquidity Adequacy Process (ILAAP) the Society models the impacts of severe but plausible liquidity stresses throughout which a surplus over minimum regulatory levels of liquidity is maintained. Scenarios tested showed that the Society would be able to continue as a Going Concern throughout the period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios. The resultant forecasts and projections therefore show that the Group will be able to operate at adequate levels of both liquidity and capital for the next 12 months.

The Directors, therefore, consider that the Society and Group have adequate resources to continue in operational existence for the next 12 months. Accordingly they continue to adopt the going concern basis in preparing the financial statements. For further details see page 48 of the Directors' Report.

New or amended accounting standards

The International Accounting Standards Board (IASB) have issued a number of new amended accounting standards and interpretations but are not effective for the twelve months ended 31 March 2021. Other than the change noted below, which is undergoing assessment, all other changes are not expected to have a significant impact on the Group's financial statements.

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In August 2020, the IASB issued Phase 2 of Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. The amendments provide practical expedients in respect of accounting for changes to financial assets and liabilities where the modification is as a direct result of the IBOR reforms. The amendments allow firms to account for the modification to the asset or liability by applying the updated effective interest rate following a transition to a new benchmark interest rate to value the financial asset or liability, rather than continuing to discount the asset or liability at the original discount rate and recognising a gain or loss in the Income Statement as per the usual requirements under IFRS 9 for modifications of financial assets and liabilities.

The Group has not chosen to early apply these amendments, which are mandatory for annual reporting periods beginning on or after 1 January 2021. In the year ended 31 March 2020, the Group chose to early adopt Interest Rate Benchmark Reform – Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7) which was mandatorily effective for annual reporting periods beginning on or after 1 January 2020. Further details of how the Group is managing its transition to replacement benchmark interest rates, and the amount of LIBOR exposure that remains as at 31 March 2021, are set out in note 12 (d).

Restatement

The Society balance sheet for the prior year has been restated as explained in Note 40. The impact of the restatement is on the Society balance sheet only and there is no impact to profit or loss or to the statement of cash flows.

Basis of consolidation

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

Subsidiaries

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

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

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

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

Securitisation transactions

The Group has entered into securitisation transactions in which it sells mortgages to structured entities. In accordance with IFRS 9 (and previously under 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.

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

The Society has entered into securitisation transactions in which it sold residential mortgages to structured entities. In accordance with IFRS 9 (and previously under 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.

Interest in unconsolidated structured entities - Group

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

The table below indicates the interests in structured entities.

	31 March 2021				31 March 2020			
	Deemed loan balances	**Mortgages transferred**	**Notes held in structured entities**	**Maximum exposure to loss in unconsolidated structured entities**	Deemed loan balances	Mortgages transferred	Notes held in structured entities	Maximum exposure to loss in unconsolidated structured entities
Group	**13.9**	**18.6**	**0.9**	**0**	14.0	22.7	1	0.3

Segmental reporting

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

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

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

Interest receivable and expense

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

Effective interest rate

The effective interest rate method is the method used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows or receipts through the expected life of the instrument, or where appropriate, a shorter period, to its carrying amount. The main impact for the Group relates to estimating the expected lives for mortgage advances, in particular the average length of the reversion period subsequent to a fixed or discounted rate period coming to an end, as the effective interest rate is a blend of the interest rates in both the initial fixed period and the expected reversion period. In addition, where mortgage advances have upfront fees, such as application and arrangement fees, and costs, these are incorporated into the calculation. This has the effect of spreading these fees and costs over the expected life of the mortgage.

Fees and commissions receivable and payable

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

1. Accounting policies (continued)

Investment properties

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

Financial instruments

a) Financial assets

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

Amortised cost

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

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

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

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

Fair value through other comprehensive income (FVOCI)

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

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

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

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

Fair value through profit or loss (FVTPL)

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

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

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

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

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

b) Financial liabilities

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

Amortised cost

This category includes shares, amounts due to credit institutions, amounts due to other customers, debt securities in issue and subordinated liabilities.

Liabilities subsequently measured at amortised cost are recognised initially at fair value, being the issue proceeds, net of premia, discounts and directly attributable transaction costs incurred. They are subsequently measured at amortised cost using the effective interest rate method.

Fair value through profit or loss (FVTPL)

This category includes derivative liabilities for which changes in fair value are presented within fair value gains/(losses) on financial instruments in the Income Statement offset, where the derivatives are hedging instruments in a qualifying IAS 39 fair value hedge relationship, by the fair value movements on the corresponding hedged items. Interest arising on derivative financial instruments is recognised within net interest on an accruals basis.

The fair values of derivative liabilities are determined in accordance with the three tier valuation hierarchy as defined within IFRS 13 'Fair Value Measurement' and in section (f) below.

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

c) Impairment of financial assets

Impairment of financial assets

Expected credit losses (ECLs) are recognised for all financial assets carried at amortised cost or FVOCI under IFRS 9, and also for undrawn loan commitments where a mortgage offer has been made but the loan is yet to be advanced and recognised in the Statement of Financial Position.

As detailed earlier in these accounts, the economic impacts of COVID-19 and resulting lockdowns has been widespread. When updating the ECL calculations, consideration has been given to the impact of ongoing government support measures, including impacts to unemployment and arrears as these approach their end, the proposed route out of lockdown and the progress of the vaccine rollout in the UK. The following assumptions have been updated when assessing the year end ECL:

- The Probability of Default (PD) assumption has been updated to reflect a lending cycle that includes a recession with a resulting impact on the Probability for Possession given Default (PPD) assumption.
- Accounts which had received a payment deferral have had a higher PD applied reflecting the fact that arrears on these accounts may not yet have been reflected in the calculated PD.
- The government mandated possessions moratorium has prevented lenders from taking possession of properties in arrears or, from a BTL perspective, has prevented sale of the property. This has distorted observed default rates. PDs have been adjusted to avoid having all BTL loans impacted by the short term fluctuation in default rates.
- Account level assumptions for commercial provisions have been refined to reflect the latest developments on an individual account level. Factors such as strategy, rental cover and exit value valuation assumptions have been considered when informing these decisions.
- The macroeconomic scenarios have been updated following changes announced in the UK up to the reporting date, for example the extension of stamp duty holiday and recognition that unemployment will likely increase once support measures come to an end. This yields more pessimistic assumptions in late 2021 and into 2022.

A number of overlays have been recorded at the year-end, detailed below:

- Deferred payments overlay – this was first raised in 2019/20 in respect of accounts that had received a payment deferral. The overlay allows for increasing default rates in borrowers who have taken payment deferrals, which may have delayed the emergence of arrears and subsequently defaults. This has been refined to reflect actual experience during the year, with reducing numbers of borrowers on deferred payments at the end of the financial year leading to a reduced overlay of £0.2m (2019/20: £1.0m).
- Combustible materials overlay – exposures attached to flats where there is a risk of the presence of combustible materials which may result in reduced valuations and/or an inability for borrowers to repay. In calculating the overlay we have allowed for rectification costs and applied a tiered increase in the PD based on risk categorisation as set out by RICS, leading to an overlay of £1.3m (2019/20: £nil).
- Economic uncertainty overlay - an economic uncertainty overlay has been recorded across both the core residential and commercial mortgage portfolios. This non-account specific overlay removes the benefit of the upside scenario by reallocating this weighting to downside and severe scenarios. This results in an overlay of £2.8m (2019/20: £nil) in respect of the commercial mortgages portfolio and £0.2m (2019/20: £nil) in respect of the core residential mortgage portfolio.

Staging

At each reporting date, financial assets subject to the impairment requirements of IFRS 9 are categorised into one of three stages:

Stage 1

On initial recognition, financial assets which are not credit impaired are categorised as stage 1 and provision is made for 12 month ECLs, being the losses from default events expected to occur within the next 12 months. Assets remain in stage 1 until such time as they meet the criteria for another stage or are derecognised.

1. Accounting policies (continued)

Stage 2 (significant increase in credit risk)
Financial assets which are not in default, but have experienced a significant increase in credit risk since initial recognition, are categorised as stage 2. The loss allowance recognised is equivalent to lifetime ECL, being the loss arising from default events expected to occur over the lifetime of the financial asset.

Determining whether a 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. As described in the ECL calculation sections which follow, the criteria applied vary across portfolios depending on the nature of the portfolio and availability of relevant credit risk information but all include the IFRS 9 'backstop' of 30 days past due as a stage 2 trigger.

Stage 3 (default)
Defaulted or credit-impaired financial assets are categorised as stage 3, requiring recognition of lifetime ECLs.

Transfers to lower stages (curing)
Financial assets in stages 2 or 3 can transfer back to stages 1 or 2, respectively, once the criteria for significant increase in credit risk or default cease to be met for a period of time defined within the ECL methodology for that portfolio, sometimes known as the 'cure' period. In practice, this means that a stage 2 or 3 loan which ceases to breach the threshold(s)/criteria for that stage will remain in the higher stage for a pre-determined number of months. The use of cure periods gives assurance that accounts have rehabilitated before re-entering lower stages and reduces the level of volatility that might otherwise arise from accounts regularly migrating between stages.

Forward-looking ECL approach
ECL is measured as the present value of the difference between the cash flows contractually due on a financial asset or undrawn commitment and the cash flows expected to be received. In the Statement of Financial Position, the loss allowance is presented as a reduction in the carrying value of the financial asset. In the case of an undrawn loan commitment, the impairment provision is instead presented within provisions for liabilities.

For each of the Group and Society's financial asset portfolios in the scope of IFRS 9 impairment, the estimate of ECL is unbiased and weighted to take into account a range of possible outcomes.

In accordance with IFRS 9, forecasts of future economic conditions are integral to the ECL calculations for each portfolio. The Group currently models four forward-looking macroeconomic scenarios: a central forecast with economic assumptions aligned to the Society's Medium Term Plan (and therefore assigned the highest weighting), together with upside, downside and stress scenarios. The scenarios have been updated with due regard to the latest market data available following developments associated with the pandemic. A more pessimistic view has been taken when developing the forecasts this year, combined with reduced weightings assigned to the central scenario, offset by a higher weighting assigned to the severe low rate scenario.

ECL calculation – core residential mortgages
For the core residential mortgage books, the impairment model employs industry-accepted statistical techniques to address the complex requirements of IFRS 9, with model assumptions and parameters initially determined by regression analysis of historical default data. The assumptions are validated using 'out of time' samples, across a range of economic scenarios, enabling the predictive capabilities of the models to be confirmed.

The model incorporates quantitative factors for identifying a significant increase in credit risk by comparing reporting date lifetime probability of default (PD) with residual origination lifetime PD. For the purposes of this quantitative staging assessment, mortgages are segmented by lending type (owner occupied or buy to let). Residual origination PD curves and (relative and absolute) threshold levels are established via an iterative process involving statistical analysis of the Group's default data. In addition, a range of internally monitored potential impairment indicators has been selected as qualitative criteria for classifying an individual loan as stage 2. Examples of qualitative indicators include cancelled direct debit instructions, certain forbearance measures and evidence of impaired credit history obtained from external agencies.

The default criteria for core residential loans are entirely aligned with those used for capital and credit risk management purposes. Loans are considered to be in default or credit-impaired if they are in arrears by three or more months, in litigation, possession or LPA receivership, or meet one of a range of internal 'unlikely to pay' indicators.

Within the core residential model, ECL is calculated by multiplying the forward-looking (PD), exposure at default (EAD) and loss given default (LGD). The model outputs monthly ECLs, which are aggregated over the first 12 months to obtain 12-month ECL and over the life of the loan to calculate lifetime ECL.

The model combines a number of account-specific variables and forecasts of future economic conditions within the calculation of PD. Macroeconomic variable inputs to the model are reviewed quarterly and include house price index (HPI), interest rates, unemployment and GDP. The variables were selected based on statistical tests and other analysis which evidenced their correlation with credit risk.

The core residential impairment model aligns the Group's capital and accounting approaches to the estimation of credit losses as closely as possible.

ECL calculation – undrawn commitments
The loss allowance for undrawn commitments is inferred from the core residential mortgage impairment model outputs for existing loans with similar risk characteristics.

All undrawn commitments are currently allocated to stage 1 such that a 12-month ECL calculation is appropriate.

The Group's IFRS 9 provision requirements for undrawn commitments at 31 March 2020 and 31 March 2021 were negligible.

ECL calculation – second charge residential mortgages
For the closed second charge loan book, a significant increase in credit risk is assessed using external credit agency PD indicators. Absolute thresholds have been set based on analysis of monthly PD scores from origination (or earliest available date) to point of default.

Second charge mortgages are considered to be in default if they are in arrears by three or more months or in bankruptcy, litigation or possession.

Impairment provisions for the closed second charge mortgage book are determined using a simple discounted cash flow model which segregates accounts by payment status. Estimated future cash flows, which consider the forced sale property valuation and level of first charge debt remaining, are discounted to their present value using the effective interest rate of the loan and compared with the account balance at the reporting date. This estimated loss on possession is multiplied by the probability of possession occurring to calculate the ECL requirement.

The key macroeconomic variable affecting the level of second charge impairment losses is HPI, as forecast within the Group's central, upside, downside and stress scenarios.

ECL calculation – commercial mortgages
The key indicator of a significant increase in credit risk for a commercial loan is a downward migration in internal credit rating, determined via an established internal credit risk assessment process. The internal grade is determined at an individual account level, combining expert judgement with prescriptive measures including, but not limited to, loan to value and income/debt service coverage ratios.

Commercial loans are categorised as default if an LPA Receiver (or equivalent) has been appointed, if they are in arrears by greater than or equal to three months, and/or are past scheduled maturity (unless past maturity by no more than 3 months and active negotiations to extend are in progress with the customer). Loans not meeting these criteria may be classified as stage 3 based on expert management judgment of the perceived risk of non-payment.

The ECL requirements for commercial mortgages are assessed on an individual loan basis, with the right to off-setting ECL requirements where cross-collateralisation exists between connected commercial mortgages, using cash flow scenario modelling. This involves estimating the timing and amount of future cash flows, in the event of default, for one or more probability weighted account-specific scenarios based on the Group's central forecast of economic conditions. Applying the Group's macroeconomic scenarios effectively creates a range of alternative outcomes in addition to the central forecast.

Estimated future cash flows, comprising rental receipts and final sales proceeds (each net of costs), are discounted at the effective interest rate of the loan and compared with its carrying value to determine the ECL under each combination of account-specific and macroeconomic scenarios. The relevant macroeconomic weightings are then applied to calculate the overall provision requirement at the reporting date.

ECL calculation – liquid assets
For liquid assets, comprising cash and balances with the Bank of England, loans and advances to credit institutions and investment securities, a significant increase in credit risk is determined by counterparty type and adverse movements in counterparty credit rating beyond specified thresholds. None of the Group's liquid assets are categorised as stage 2 at the reporting date.

Liquid assets are in default if categorised as such by external credit rating agencies. The Group has never experienced an impairment loss or default on its Treasury investment portfolio.

The ECL calculation for liquid assets multiplies the carrying value of the asset by a PD applicable to its credit rating at the reporting date. The PD is obtained from publically available external credit rating agency data tables. The macroeconomic weighted scenarios are translated to shifts in counterparty credit ratings thereby changing the PDs applied in the calculation.

The Group's liquid asset provision requirements at 31 March 2020 and 31 March 2021 were negligible.

Write off of financial assets
Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Income Statement.

d) Derecognition of financial assets and liabilities
The Group's policy is to derecognise financial assets when the contractual right to the cash flows from the financial asset expires. The Group also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership.

The Group derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled or has expired.

e) Modification of contractual cash flows
The Group may, in certain circumstances, renegotiate or otherwise modify the contractual cash flows of loans and advances to customers. If qualitative assessments conclude that the new cash flows are substantially different to the original cash flows, the original loan is derecognised and a new financial asset recognised in the Statement of Financial Position. If the modified cash flows are not substantially different, a modification gain or loss is recognised in profit or loss, calculated by adjusting the loan's gross carrying amount to the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

Where contractual terms are modified due to financial difficulties of the borrower (forbearance), the modification gain or loss is included within impairment on loans and advances; otherwise it is presented within interest receivable.

For residential mortgages, a change of product at the end of a fixed rate deal period is not considered to be a modification to the contract but instead a repricing to market interest rates which was envisaged at the start of the customer relationship.

f) Determination of fair value
The Group determines fair values by the three tier valuation hierarchy as defined within IFRS 13 'Fair Value Measurement' and Amendments to IFRS 7 'Financial Instruments: Disclosures'.

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

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 in an orderly transaction between market participants. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

Level 2: For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, volatilities and counterparty spreads) existing at the reporting dates.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as interest rate swaps. For these financial instruments, inputs into models are generally market observable.

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

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

g) Sale and repurchase agreements

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

h) Derivative financial instruments and hedge accounting

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

In accordance with its Treasury and Financial Risk Management Policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments (both assets and liabilities) are initially recognised and subsequently held at fair value in the Statement of Financial Position with changes in their fair value going through the Income Statement. However, by applying the hedge accounting rules set out in IAS 39, the changes in fair value of derivatives used to hedge particular risks can be offset in the Income Statement.

i) Fair value hedges – The Group undertakes hedges of the fair value of recognised assets or liabilities (fair value hedges) provided that certain criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest rate method is used, is amortised to profit or loss over the remaining expected life of the previously hedged item.

The Group documents, at the inception of any hedging transaction, the relationship between the hedging instrument and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

ii) Derivatives that do not qualify for hedge accounting – Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

i) Offsetting

Offsetting financial assets and financial liabilities are offset and the net amount presented within the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. There are no financial assets or liabilities which are offset within the Statement of Financial Position and all financial assets and liabilities are presented on a gross basis. Income and expenses are presented on a net basis only when permitted under IFRS.

Equity instruments

Equity instruments, comprising core capital deferred shares (CCDS), subscribed capital and, in previous years, profit participating deferred shares (PPDS) are financial instruments issued which do not give rise to a contractual obligation to deliver cash or another financial asset to the holder. Where such an obligation exists, the instrument is classified as a financial liability.

The proceeds of issuing equity instruments are recognised within equity, net of directly attributable costs and tax.

Distributions to holders of equity instruments are recognised directly in equity as a deduction from general reserves.

Intangible assets

Computer software

Computer software which is not an integral part of the related hardware is recorded as an intangible asset. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Intangible assets are held at amortised cost; amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of 3 to 10 years. Intangible assets are subject to regular impairment reviews. Costs associated with maintaining software are recognised as an expense when incurred.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, except the Head Office, is stated at valuation less depreciation. The Head Office building and plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All gains on the revaluation of property are recognised in the revaluation reserve when they arise. Freehold branches are revalued every 3 to 5 years by an independent firm of valuers.

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

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

Freehold branches	Up to 50 years
Head office	Up to 25 years
Leasehold improvements	Annual instalments over the period of the lease
Equipment, fixtures and fittings and motor vehicles	
• Office equipment	3 to 7 years
• Computer equipment	3 to 7 years
• Motor vehicles	25% per annum reducing balance
• Refurbishments	5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

Leases

When the Group enters into a contract which conveys the right to control the use of an identified asset for a period of time in excess of 12 months in exchange for consideration, it recognises a right-of-use (ROU) asset and a corresponding lease liability in the Statement of Financial Position. The majority of the Group's leases relate to its branch property network.

The lease liability is measured at the present value of the remaining lease payments at the commencement date, discounted using the Group's incremental borrowing rate. The lease term incorporates lease extension or termination options where they are reasonably certain to be exercised. The incremental borrowing rate is determined with reference to the market pricing of securities with similar risk characteristics and terms to the leased assets at the commencement date. The carrying value of the lease liability is adjusted for interest charged and repayments. The lease liability is remeasured for changes in future lease payments, the lease term or the Group's assessment of whether it will exercise a lease extension or termination option. Any remeasurement results in a corresponding adjustment to the ROU asset. Interest is charged on the lease liability at the Group's incremental borrowing rate and recorded in interest expense and similar charges within the Income Statement.

The ROU asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for remeasurement of the corresponding lease liability. The initial measurement of the ROU asset includes the lease liability, initial direct costs, lease payments made prior to the commencement date and lease incentives received. It is subsequently depreciated using the straight line method over the shorter of the asset's estimated useful life and the period to the end of the lease term. ROU assets are subject to an annual impairment assessment.

As permitted by IFRS 16, the Group does not recognise a ROU asset or lease liability for leases of low value or with lease terms of less than 12 months. For these leases, payments are recognised on a straight line basis over the lease term and disclosed within administrative expenses in the Income Statement.

The Group has elected to separate its lease components and non-lease components for its property leases (e.g service charges).

In the Statement of Cash Flows, payments of lease liabilities are categorised as cash flows from financing activities.

Where the Group acts as a lessor, these leases are treated as operating leases. The Group recognises lease payments received in line with receipt of payments in the Income Statement.

Determining the incremental borrowing rate used to discount the future lease payments involved a degree of estimation uncertainty. However, these judgements and estimates are not deemed critical, as they do not materially impact the financial statements.

Cash and cash equivalents

For the purposes of the 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 from the date of acquisition.

1. Accounting policies (continued)

Taxation

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

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

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

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

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

Provisions and contingent liabilities

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

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

Employee benefits

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

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by the revised standard (IAS 19), actuarial gains and losses are recognised outside profit or loss in other comprehensive income, as an increase or decrease in general reserves.

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

For defined contribution plans, the contributions are recognised as employee benefit expenses in the Income Statement when they are due, in accordance with the rules of the scheme. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Critical accounting estimates and judgements in applying accounting policies

In the process of applying accounting policies, the Group makes various judgements, estimates and assumptions which affect the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements in applying accounting policies

Impairment

For IFRS 9 impairment, judgement is required to define the staging criteria, i.e. what constitutes a significant increase in credit risk (stage 2) and what circumstances give rise to a default (stage 3). Where assets meet the stage 2 or 3 criteria, lifetime ECL must be recognised.

The staging methodologies for each portfolio are detailed within the financial assets (impairment) accounting policy in this note. Model monitoring and model validation procedures are used to continually evaluate the appropriateness of the staging criteria and macroeconomic variable inputs.

Securitisation transactions

In order to determine whether the Group controls a structured entity or not, the Group has to make judgements about the degree of control and assess the ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. When assessing whether the Group has to consolidate a structured entity it evaluates a range of factors following the rules and guidance of IFRS 10 'Consolidated Financial Statements'.

Where the Group has concluded that it does, in substance, control the entity to which financial assets have been transferred, the structured entity is included in these financial statements and the transferred assets are recognised in the Group's Statement of Financial Position. Where the securitised assets were originated by the Society they continue to be recognised in the Society's Statement of Financial Position. Management reassessed the accounting for Sandwell Commercial Finance no. 1 plc and Sandwell Commercial Finance no. 2 plc in the prior year, and reached a judgement that these entities no longer met consolidation criteria as set out in IFRS 10 'Consolidated Financial Statements'. In particular, the Group's limited exposure to credit losses in these entities (through deferred consideration and subordinated debt) has been fully written down, with little prospect of recovery, meaning that there is no longer any future exposure to variability of returns from these entities. As a result, these entities were deconsolidated with effect from 31 December 2019 and a gain on deconsolidation was recorded in the prior financial year; had the judgement to deconsolidate been reached in an earlier accounting period, this gain would also have been recognised earlier. Consequently the Group accounts do not include the results of these entities after deconsolidation.

Sources of estimation uncertainty

Impairment on loans and advances – forward-looking ECL approach

The estimation of ECLs is inherently uncertain and the IFRS 9 impairment models incorporate a number of assumptions and estimates, changes in which could materially affect the carrying amounts of assets and liabilities within the next financial year. The IFRS 9 requirements to incorporate forward-looking information within the ECL calculation, including forecasts of future macroeconomic conditions, necessitate judgement thereby increasing the potential for volatility in future periods.

The Group's impairment models incorporate four macroeconomic forecasts (central, upside, downside and stress), each comprising a number of economic variables considered to be credit risk drivers. As already explained, economic scenarios and weightings have been updated to reflect the changing economic conditions to which the Group is exposed.

Impairment on loans and advances - residential mortgages (core and second charge)

The following table indicates the main economic variables included within the IFRS 9 macroeconomic scenarios at 31 March 2021 and the associated weightings, along with the sensitivity to the total residential and commercial ECL provision arising from the application of 100% weightings to each scenario. The macroeconomic scenarios and associated weightings at 31 March 2020 are also provided for comparative purposes.

Macroeconomic scenarios as at 31 March 2021:

			Current scenario (%)				
	Scenario weighting		2021/22	2022/23	5 year average	Increase/ (decrease) in provision with 100% scenario weighting (£)	Increase/ (decrease) in provision with 10% increase in weighting* (£)
Central scenario	50%	Bank Rate	0.1	0.1	0.2	(15.2)	-
		HPI	1.9	(0.2)	2.0		
		Unemployment	6.3	5.7	5.2		
		GDP	4.4	6.6	3.3		
Upside scenario	10%	Bank Rate	0.1	0.3	0.5	(18.7)	(0.3)
		HPI	4.0	5.0	3.9		
		Unemployment	5.6	3.4	3.7		
		GDP	6.2	7.4	4.5		
Downside scenario	25%	Bank Rate	0.1	(0.1)	-	11.5	2.7
		HPI	(9.1)	(5.1)	(2.3)		
		Unemployment	8.3	7.8	6.9		
		GDP	0.7	2.1	1.4		
Stress scenario	15%	Bank Rate	-	(0.1)	(0.1)	45.1	5.9
		HPI	(20.0)	(10.0)	(5.6)		
		Unemployment	10.0	12.0	9.2		
		GDP	(15.0)	(5.0)	(2.0)		

*(increase in 10% weighting with a corresponding reduction in the central scenarios).

1. Accounting policies (continued)

Macroeconomic scenarios as at 31 March 2020:

	Scenario weighting		Current scenario (%) 2020/21	2021/22	2022/23
Central scenario	**50%**	Bank Rate	0.1	0.3	0.3
		HPI	(4.0)	4.0	3.4
		Unemployment	6.0	4.5	3.7
		GDP	(5.0)	3.5	3.5
Upside scenario	**5%**	Bank Rate	0.3	0.8	1.0
		HPI	2.9	3.8	4.6
		Unemployment	4.1	3.6	3.1
		GDP	(5.0)	6.0	6.0
Downside scenario	**30%**	Bank Rate	0.1	0.1	0.1
		HPI	(6.0)	-	1.0
		Unemployment	10.0	6.0	3.7
		GDP	(15.0)	-	6.0
Stress scenario	**15%**	Bank Rate	0.1	-	-
		HPI	(15.0)	(5.0)	-
		Unemployment	12.0	8.0	6.0
		GDP	(15.0)	(5.0)	-

Key assumptions for the residential portfolios are the weightings of the macroeconomic forecasts, which each incorporate a different outlook for the economic variables shown in the table above, the forecast of future house price inflation and the relative threshold used to identify a significant increase in credit risk. The sensitivity of the residential provision calculations to the key assumptions in the current and prior year is as follows:

Assumption	Change to current assumption	Increase/(Decrease) in impairment provision 2021 £m
HPI growth	Increase of 5.0%	**(0.5)**
HPI growth	Decrease of 5.0%	**0.7**
Quantitative threshold for identifying a significant increase in credit risk	Relative decrease of 7%	**2.9**

Impairment on loans and advances - commercial mortgages

Consistent with residential mortgages, the IFRS 9 ECL calculation for the commercial portfolio incorporates central, upside, downside and stress economic scenarios with weightings of 50%, 10%, 25% and 15% respectively.

In addition to the scenario weightings and account-specific factors that impact cash flows, the key model assumption for commercial provisioning is considered to be the exit yield requirement, which is used to estimate the cash flows arising from realisation of the property values on sale. While interest rates also have a significant impact on the ECL, via the discount factor applied in the model, compensating economic hedge arrangements would substantially offset the provision movement in profit or loss terms with an opposing fair value movement. Compared with the central economic forecast, the exit yield requirement for each loan increases by 0.9% and 2.0% in the downside and stress scenarios respectively and reduced by 0.2% in the upside scenario. This compares to an average exit yield of 8%.

The tables below illustrates the sensitivity of the commercial ECL calculation to the central scenario weighting and exit yield requirement.

Assumption	Change to current assumption	Increase/(Decrease) in impairment provision 2021 £m
Exit yield requirement	Increase of 0.5% across all scenarios	4.1

Fair value of equity release mortgages

Under IFRS 9, the mature and closed book of equity release mortgages is held at FVTPL with fair values determined using a discounted cash flow model which incorporates a number of judgemental assumptions to determine the amount and timing of future cash flows arising on mortgage redemption. Certain model inputs, such as redemption rates, are informed by historic experience, with observed closure curves extrapolated to give an expected maturity profile for the remaining book. Other model assumptions, such as house price indices, are based on the Group's view of future economic conditions. The discount factor used to calculate the present value of the future cash flows has been determined with due regard to credit, market and liquidity risk.

Key sensitivities are in relation to HPI, discount rate and time to redemption as shown in the table below.

Assumption	Change to current assumption	Increase in fair value loss 2021 £m
HPI growth	Increase of 5.0%	(0.4)
HPI growth	Decrease of 5.0%	0.5
Discount rate	Increase of 0.25%	0.1
Time to redemption	Increase of 1 year	0.3

1. Accounting policies (continued)

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%, representing 1.3 months, the carrying value of mortgages would increase by £4.9m (2019/ 20: £3.7m) with a corresponding increase in interest income.

Investment properties
Independent specialist valuers have undertaken a valuation review of the portfolio of residential investment properties on an open market value for existing use basis, calculated on the net income allowing for reversionary potential. In making the judgment, consideration has been given to assumptions that are mainly based on market conditions existing at the Statement of Financial Position date. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. The calculation of the fair value of investment properties 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 £7.2m (2019/20: £6.9m) with a corresponding change to income.

Pensions
The Group operates a defined benefit pension scheme. The year end valuation of the scheme assets and liabilities relies on estimates of future interest, inflation and mortality rates informed by external advice from the scheme actuaries. The main assumptions used in the valuation, together with sensitivity analysis of the impact of movements in key variables, are outlined in note 31 to the Accounts.

ECL calculation – investments in subsidiary undertakings
Investments in subsidiary undertakings comprise (minimal) share capital and intercompany loans. Intercompany loans are financial assets of the Society which are measured at amortised cost and therefore subject to the impairment requirements of IFRS 9.

For lending subsidiaries, the impairment provision requirement is determined by assessing the recoverability of the amount owed to the Society in comparison to the net assets of the subsidiary. Where an impairment is recorded, the intercompany loan is categorised as stage 2; all other intercompany loans are recorded as Stage 1. The ultimate recovery of these amounts is linked to the recoverability of the underlying loans and advances, for which the ECL methodology, including related judgments and estimation techniques, has been provided above. The impairment provision requirement is reviewed periodically.

2. Interest receivable and similar income

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
On financial assets not at fair value through profit or loss:				
Loans fully secured on residential property	**88.6**	101.8	**69.6**	74.1
Other loans				
Connected undertakings	**-**	-	**23.9**	31.0
Loans fully secured on land	**9.0**	11.3	**1.4**	1.3
Investment securities	**1.4**	3.6	**4.6**	10.9
Other liquid assets	**0.4**	1.9	**0.4**	1.7
On financial assets at fair value through profit or loss:				
Loans fully secured on residential property	**0.8**	1.0	**0.8**	1.0
Net expense on derivative financial instruments	**(16.0)**	(5.5)	**(13.3)**	(3.9)
Total interest receivable and similar income	**84.2**	114.1	**87.4**	116.1
Interest receivable includes:				
Income from fixed income securities	-	0.1	-	0.1

During the year ended 31 March 2021, the total interest receivable and similar income calculated using the effective interest method was: Group £98.0m (2019/20: £115.0m) and Society £98.5m (2019/20: £115.4m) for financial assets held at amortised cost, and Group £1.4m (2019/20: £3.6m) and Society £1.4m (2019/20: £3.6m) for financial assets held at fair value through other comprehensive income.

Included within interest receivable and similar income is interest accrued on impaired residential mortgage assets: Group £1.3m (2019/20: £1.5m) and Society £0.6m (2019/20: £0.6m) and interest accrued on impaired commercial mortgage assets: Group £4.6m (2019/20: £5.3m) and Society £nil (2019/20: £nil). For the purposes of this disclosure, impaired mortgage assets are those which have been categorised as stage 3 under IFRS 9.

3. Interest expense and similar charges

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
On financial liabilities not at fair value through profit or loss:				
Shares held by individuals	**19.6**	39.7	**19.6**	39.8
Deposits from banks and other deposits	**2.3**	6.8	**1.8**	5.0
Debt securities in issue	**1.9**	5.4	**-**	-
Subordinated liabilities	**2.5**	2.5	**2.5**	2.5
Deemed loans	**0.1**	-	**5.7**	7.8
Lease liabilities	**0.1**	0.1	**0.1**	0.1
On financial liabilities at fair value through profit or loss:				
Net income on derivative financial instruments	**-**	0.5	**-**	0.5
Total interest expense and similar charges	**26.5**	55.0	**29.7**	55.7

4. Other operating income

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Other operating income includes:				
Rent receivable on investment property	**7.0**	6.9	**-**	-
Operating expenses on investment property	**(3.2)**	(2.9)	**-**	-
Pension fund net interest (note 31)	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Other	**-**	0.1	**-**	0.1
Total other operating income	**3.7**	4.0	**(0.1)**	-

5. Fair value gains/(losses) on financial instruments

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Fair value hedges				
Derivatives designated as fair value hedges	**15.7**	(12.0)	**15.7**	(14.0)
Adjustments to hedged items in fair value hedge relationships	**(13.6)**	8.7	**(13.6)**	10.8
Fair value gains/(losses) on hedge accounting	**2.1**	(3.3)	**2.1**	(3.2)
Other derivatives	**1.5**	(5.0)	**-**	(2.0)
Financial instruments mandatorily at fair value through profit or loss	**(0.2)**	(0.2)	**(0.3)**	0.5
Total fair value gains/(losses) on financial instruments	**3.4**	(8.5)	**1.8**	(4.7)

6. Administrative expenses

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Staff costs				
Wages and salaries	**21.6**	21.8	**21.1**	21.4
Social security costs	**2.1**	2.0	**2.1**	1.9
Other pension costs	**1.9**	1.8	**1.8**	1.8
Other administrative expenses	**13.5**	12.6	**11.4**	11.0
	39.1	38.2	**36.4**	36.1
Other administrative expenses include:				
Remuneration of auditor (excluding VAT element)				
Audit of these financial statements	**0.5**	0.3	**0.5**	0.3
Audit of the subsidiary financial statements	**0.1**	0.1	**-**	-

Wages and salaries include £0.1m (2019/20: £0.7m) redundancy costs paid as part of the restructuring and rationalisation undertaken during the year.

Other assurance services provided by the external auditor comprise £5,000 (2019/20: £10,500) in respect of audit-related assurance services and £nil (2019/20: £47,300) in respect of other assurance services, in each case excluding VAT.

7. Employee numbers

	Group and Society 2021	Group and Society 2020
The average number of employees employed throughout the year was:		
Full time	**480**	489
Part time	**195**	188
	675	677
Building Society		
Central administration (Society and subsidiaries)	**482**	476
Branches	**193**	201
	675	677

All employees were employed within the United Kingdom.

8. Directors' emoluments

Total Directors' emoluments including expenses amounted to £1.612m (2019/20: £1.677m). Full details are given in the Directors' Remuneration Report on pages 58 to 67.

9. Taxation

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
UK corporation tax at 19% (2019/20: 19%)	**0.8**	0.6	**2.2**	2.0
Corporation tax - adjustment in respect of prior years	**0.2**	(0.1)	**0.8**	(0.1)
Total current tax	**1.0**	0.5	**3.0**	1.9
Deferred tax				
Current year	**(1.5)**	0.7	**(2.7)**	(1.7)
Adjustment in respect of prior periods	**0.1**	0.3	**0.1**	0.1
Effect of changes in tax rates	**-**	(1.5)	**-**	(0.9)
Tax on profit/(loss) on ordinary activities	**(0.4)**	-	**0.4**	(0.6)

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

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Profit/(loss) before tax	**4.7**	1.5	**(12.7)**	(18.7)
Profit/(loss) before tax multiplied by the UK standard rate of tax of 19% (2019/20: 19%)	**0.9**	0.3	**(2.4)**	(3.6)
Effects of:				
Income not taxable and expenses not deductible for tax purposes	**0.2**	0.3	**5.8**	6.0
Changes to tax rate	**-**	(1.5)	**-**	(0.9)
Adjustment in respect of prior years	**0.3**	0.2	**0.9**	-
Transfer pricing adjustments	**-**	-	**(0.4)**	(1.1)
Deconsolidation adjustments	**(0.3)**	(1.1)	**-**	-
Write down/(utilisation and recognition) of deferred tax assets	**(1.4)**	2.0	**(3.5)**	(1.0)
Revaluation	**(0.1)**	(0.2)	**-**	-
Tax charge/(credit)	**(0.4)**	-	**0.4**	(0.6)

10. Cash and balances with the Bank of England

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Cash in hand	**1.9**	2.7	**1.9**	2.7
Cash ratio deposit with the Bank of England	**11.8**	11.3	**11.8**	11.3
Other deposits with the Bank of England	**302.8**	249.5	**302.8**	249.5
	316.5	263.5	**316.5**	263.5

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 2021 £m	Group 2020 £m	**Society 2021 £m**	Society* 2020 £m
Listed transferable investment securities:				
Fair value through other comprehensive income	**275.6**	284.3	**275.6**	284.3
Amortised cost	**-**	-	**508.9**	546.2
Fair value through profit or loss	**0.9**	1.0	**0.9**	1.0
Total investment securities	**276.5**	285.3	**785.4**	831.5

The movement in investment securities is summarised as follows:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society* 2020 £m
At beginning of year	**285.3**	309.3	**831.5**	901.0
Treated as cash and cash equivalents:				
Additions	**-**	46.0	**-**	46.0
Disposals (sale and redemption)	**-**	(66.1)	**-**	(66.1)
Investment securities with maturities > 3 months at date of acquisition:				
Recognised on deconsolidation of commercial securitisations	**-**	1.2	**-**	-
Additions	**41.5**	121.8	**41.5**	121.8
Disposals (sale and redemption)	**(54.0)**	(124.7)	**(91.3)**	(169.3)
Gains/(losses) from changes in fair value	**3.7**	(2.2)	**3.7**	(1.9)
At end of year	**276.5**	285.3	**785.4**	831.5

*Investment securities have been restated as explained in Note 40

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 and hedge accounting

(a) Use of derivative financial instruments for interest rate risk management purposes

The Group is exposed to the risk that movements in interest rates change the value of, or income arising from, its assets and liabilities. This type of market risk is known as interest rate risk.

The Group has an integrated approach to interest rate risk management, taking advantage of natural hedges which exist within the Group Statement of Financial Position and using derivatives where no such natural hedges exist. Derivatives are financial instruments whose value is derived from one or more underlying price, rate or index (such as interest rates, exchange rates or stock market indices) but have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return, as cash flows are generally settled at a future date.

The derivatives currently held by the Group comprise interest rate swaps with highly rated counterparties. Counterparty credit risk is mitigated by the posting of collateral and the use of central clearing counterparties. In accordance with the Building Societies Act 1986, derivatives are solely used for risk mitigation and never for trading purposes. From an accounting perspective, where the IAS 39 criteria are met, the derivatives are designated as hedging instruments in fair value hedge relationships and hedge accounting is adopted. Otherwise, the derivatives are held as economic hedges and valued at fair value through profit or loss. The accounting policies for derivatives and hedge accounting are described in note 1 to the accounts.

The following table describes the significant activities undertaken by the Group, the associated risks, the type of derivatives typically used in managing such risks and related hedge relationships.

Activity	Risk	Derivative type	Hedge relationship	Hedge accounting
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Fair value hedge	Yes
Fixed rate investment securities	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Fair value hedge	Yes
Fixed rate savings products	Sensitivity to changes in interest rates	Receive fixed pay floating interest rate swaps	Fair value hedge	Yes
Variable rate debt securities in issue	Sensitivity to fluctuations in interest rates between quarterly reset dates	Pay floating receive floating interest rate swaps	Economic hedge	No
Commercial mortgage loss provisions	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Economic hedge	No

These arrangements have been established solely for the mitigation of interest rate risk. Other risks, such as credit risk, are separately managed but not hedged. The interest rate risk component of the hedge relationship is ascertained with reference to the benchmark rate of interest being hedged.

(b) Derivative financial instruments in the Statement of Financial Position

The following tables show the notional and carrying amounts of derivative financial instruments at the year-end date.

Group	Notional amount 2021 £m	Carrying value in the Statement of Financial Position Assets 2021 £m	Liabilities 2021 £m
Interest rate swaps			
Designated as fair value hedges	**1,995.3**	**4.3**	**(31.1)**
Economic hedges	**1,214.6**	**2.2**	**(9.4)**
Total derivatives held for hedging purposes	**3,209.9**	**6.5**	**(40.5)**

Group	Notional amount 2020 £m	Carrying value in the Statement of Financial Position Assets 2020 £m	Liabilities 2020 £m
Interest rate swaps			
Designated as fair value hedges	1,752.9	-	(41.3)
Economic hedges	1,668.4	4.5	(12.9)
Total derivatives held for hedging purposes	3,421.3	4.5	(54.2)

12. Derivative financial instruments and hedge accounting (continued)

Society	Notional amount 2021 £m	Carrying value in the Statement of Financial Position Assets 2021 £m	Liabilities 2021 £m
Interest rate swaps			
Designated as fair value hedges	**1,995.3**	**4.3**	**(31.1)**
Economic hedges	**967.2**	**2.2**	**(8.0)**
Total derivatives held for hedging purposes	**2,962.5**	**6.5**	**(39.1)**

Society	Notional amount 2020 £m	Carrying value in the Statement of Financial Position Assets 2020 £m	Liabilities 2020 £m
Interest rate swaps			
Designated as fair value hedges	1,752.9	-	(41.3)
Economic hedges	1,277.5	4.5	(10.3)
Total derivatives held for hedging purposes	3,030.4	4.5	(51.6)

(c) Hedge accounting

(i) Fair value hedges
Hedges of the fair value of recognised assets or liabilities are termed 'fair value hedges'. Under hedge accounting rules, changes in the fair value of derivatives (hedging instruments) are offset against changes in the fair value of hedged assets or liabilities (hedged items) in the Income Statement. The hedging ratio is the ratio of the notional value of the derivatives to the principal of the assets or liabilities being hedged.

(ii) Hedge effectiveness
For a fair value hedge of interest rate risk, hedge effectiveness is determined by comparing changes in the fair value of the derivative with changes in the fair value of the hedged asset or liability attributable to changes in interest rates.

The primary sources of ineffectiveness for the Society's fair value hedge relationships are:

- Differences in the timing of cash flows between the interest rate swaps and the hedged mortgages or savings products.
- Differences between actual and expected prepayment profiles of the hedged items.
- Differences between the contractual maturity dates of the derivatives and the hedged items.

(iii) Portfolio hedges
The Society designates fair value hedge relationships in which derivative financial instruments hedge a portfolio of fixed rate mortgages or savings products, reducing the Income Statement volatility that would otherwise arise from the derivatives being measured at fair value through profit or loss and the related hedged items at amortised cost.

The Society's hedging approach is dynamic, as the mortgage portfolios are constantly changing due to new advances, contractual repayments and early redemptions. To manage the interest rate risk inherent within fixed rate mortgage lending, the Society frequently enters into and closes interest rate swap arrangements. It assesses hedging ratios and hedge effectiveness on a monthly basis.

(iv) Derivatives not in a designated hedge relationship
In cases where the Group holds derivatives for hedging purposes, but the prescriptive IAS 39 criteria for application of hedge accounting are not met, the derivatives are held at fair value through profit or loss. Changes in the fair value of these derivatives are included within 'Fair value gains/(losses) on financial instruments' on the Income Statement.

The following tables analyse the notional value and average fixed rate of interest rate swaps in designated hedge relationships by contractual maturity date.

At 31 March 2021

Group and Society	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Fair value hedge of fixed rate residential loans				
Interest rate swap notional (£m)	38.0	502.6	1,318.9	38.9
Average fixed rate	1.60%	0.61%	0.57%	0.57%
Fair value hedge of fixed rate investment securities				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Fair value hedge of fixed rate savings products				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Group				
Fair value hedge of fixed rate commercial loans				
Interest rate swap notional (£m)	-	0.7	42.6	53.6
Average fixed rate	-	5.12%	4.26%	5.06%
Society				
Fair value hedge of intercompany loans*				
Interest rate swap notional (£m)	-	0.7	42.6	53.6
Average fixed rate	-	5.12%	4.26%	5.06%

At 31 March 2020

Group and Society	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Fair value hedge of fixed rate residential loans				
Interest rate swap notional (£m)	154.0	207.5	1,266.3	9.7
Average fixed rate	0.64%	0.92%	0.55%	0.84%
Fair value hedge of fixed rate investment securities				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Fair value hedge of fixed rate savings products				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Group				
Fair value hedge of fixed rate commercial loans				
Interest rate swap notional (£m)	10.3	-	31.4	73.7
Average fixed rate	2.88%	-	5.05%	4.84%
Society				
Fair value hedge of intercompany loans*				
Interest rate swap notional (£m)	10.3	-	31.4	73.7
Average fixed rate	2.88%	-	5.05%	4.84%

*The Society holds interest rate swaps to mitigate interest rate risk on commercial mortgages originated by its subsidiary West Bromwich Commercial Limited (WBCL). At Group level the derivatives and commercial mortgages are in designated IAS 39 hedge relationships. In the Society's individual financial statements, the interest rate swaps are held in a hedge relationship against intercompany loans with equivalent terms to the third party commercial mortgages.

12. Derivative financial instruments and hedge accounting (continued)

The impact of hedge accounting on the Group and Society Income Statement and Statement of Financial Position (SOFP) is indicated in the tables which follow.

Hedging instruments at 31 March 2021

Interest rate swaps Group and Society	Notional amount £m	Carrying value in the SOFP Assets £m	Carrying value in the SOFP Liabilities £m	SOFP line	Change in fair value used for recognising ineffectiveness £m	Ineffectivess charge/(credit) in the Income Statement £m	Income Statement line
Fair value hedge of fixed rate residential loans	1,898.4	4.3	(13.3)	Derivative financial instruments	8.5	0.9	Fair value gains/(losses) on financial instruments
Fair value hedge of fixed rate investment securities	-	-	-	Derivative financial instruments	-	-	Fair value gains/(losses) on financial instruments
Fair value hedge of fixed rate savings products	-	-	-	Derivative financial instruments	-	-	Fair value gains/(losses) on financial instruments
Group							
Fair value hedge of fixed rate commercial loans	96.9	-	(17.8)	Derivative financial instruments	7.2	(3.0)	Fair value gains/(losses) on financial instruments
Society							
Fair value hedge of intercompany loans*	96.9	-	(17.8)	Derivative financial instruments	7.2	(3.0)	Fair value gains/(losses) on financial instruments

Hedging instruments at 31 March 2020

Interest rate swaps Group and Society	Notional amount £m	Carrying value in the SOFP Assets £m	Carrying value in the SOFP Liabilities £m	SOFP line	Change in fair value used for recognising ineffectiveness £m	Ineffectivess charge in the Income Statement £m	Income Statement line
Fair value hedge of fixed rate residential loans	1,637.5	-	(16.4)	Derivative financial instruments	(15.1)	2.4	Fair value gains/(losses) on financial instruments
Fair value hedge of fixed rate investment securities	-	-	-	Derivative financial instruments	-	-	Fair value gains/(losses) on financial instruments
Fair value hedge of fixed rate savings products	-	-	-	Derivative financial instruments	(0.1)	0.1	Fair value gains/(losses) on financial instruments
Group							
Fair value hedge of fixed rate commercial loans	115.4	-	(24.9)	Derivative financial instruments	3.2	0.8	Fair value gains/(losses) on financial instruments
Society							
Fair value hedge of intercompany loans*	115.4	-	(24.9)	Derivative financial instruments	1.2	0.7	Fair value gains/(losses) on financial instruments

Hedged items at 31 March 2021

Hedged assets and liabilities Group and Society	Carrying value in the SOFP £m	Accumulated fair value adjustments £m	SOFP line	Change in fair value used for recognising ineffectiveness £m
Fixed rate residential loans	1,699.6	3.7	Loans and advances to customers	(9.4)
Fixed rate investment securities	-	-	Investment securities	-
Fixed rate savings products	-	-	Shares	-
Group				
Fixed rate commercial loans	118.6	21.8	Loans and advances to customers	(4.2)
Society				
Intercompany loans*	118.6	21.8	Loans and advances to customers	(4.2)

Hedged items at 31 March 2020

Hedged assets and liabilities Group and Society	Carrying value in the SOFP £m	Accumulated fair value adjustments £m	SOFP line	Change in fair value used for recognising ineffectiveness £m
Fixed rate residential loans	1,551.8	14.7	Loans and advances to customers	12.7
Group				
Fixed rate commercial loans	135.5	26.0	Loans and advances to customers	(4.0)
Society				
Intercompany loans*	135.5	26.0	Loans and advances to customers	(1.9)

*The Society holds interest rate swaps to mitigate interest rate risk on commercial mortgages originated by its subsidiary West Bromwich Commercial Limited (WBCL). At Group level the derivatives and commercial mortgages are in designated IAS 39 hedge relationships. In the Society's individual financial statements, the interest rate swaps are held in a hedge relationship against intercompany loans with equivalent terms to the third party commercial mortgages.

(d) IBOR reform

The Group is exposed to LIBOR, which is subject to interest rate benchmark reform. Note 1 contains details on the hedged items affected by these reforms.

The Group is closely monitoring the market and the output from the various industry working groups managing the transition from LIBOR to SONIA. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) regarding the transition away from LIBOR). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has set up an IBOR transition programme. The aim of the programme is to understand IBOR exposures within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates.

Certain of the Group’s current GBP LIBOR linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate; for those that do not, the Group is engaging with external parties to facilitate the required changes to these contracts.

For the Group’s derivatives, active transition to SONIA is being reviewed, but the Group has also signed up to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol meaning the fall-back arrangements within that protocol are available if required.

The Group has £3.5m (2019/20: £4.1m) of LIBOR linked floating rate mortgages all of which are acquired mortgages. The Group intends to treat customers fairly during the transition of these mortgages away from IBOR such that there is no customer detriment at the point of transfer and that customers are kept informed about the impact of IBOR reforms on their contracts.

Details of the hedging instruments and hedged items affected by the IBOR reform are shown below. The terms of the hedged items listed match those of the corresponding hedging instruments.

12. Derivative financial instruments and hedge accounting (continued)

At 31 March 2021

Hedge Type	**Instrument type**	**Maturing in**	**Nominal £m**	**Hedged item**
Fair value hedge of fixed rate residential loans	Receive 3-month GBP LIBOR, pay sterling fixed interest rate swaps	2021	199.2	Fixed rate financial assets
		2022	385.6	
		2023	22.1	
		2024	-	
		2025+	8.9	
Fair value hedge of fixed rate commercial loans	Receive 3-month GBP LIBOR, pay sterling fixed interest rate swaps	2021	12.7	Fixed rate financial assets
		2022	30.6	
		2023	63.0	
		2024	66.9	
		2025+	116.5	
Total			**905.5**	

At 31 March 2020

Hedge Type	Instrument type	Maturing in	Nominal £m	Hedged item
Fair value hedge of fixed rate residential loans	Receive 3-month GBP LIBOR, pay sterling fixed interest rate swaps	2020	189.5	Fixed rate financial assets
		2021	239.1	
		2022	435.2	
		2023	26.7	
		2024	-	
		2025+	9.6	
Fair value hedge of fixed rate commercial loans	Receive 3-month GBP LIBOR, pay sterling fixed interest rate swaps	2020	50.3	Fixed rate financial assets
		2021	13.7	
		2022	30.6	
		2023	63.0	
		2024	67.1	
		2025+	117.8	
Total			1,242.6	

13. Loans and advances to customers

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Amortised cost				
Loans fully secured on residential property	**4,556.2**	4,354.5	**3,361.5**	3,114.9
Loans fully secured on land	**361.6**	373.3	**16.3**	15.1
	4,917.8	4,727.8	**3,377.8**	3,130.0
At fair value through profit or loss				
Loans fully secured on residential property	**12.5**	13.3	**12.5**	13.3
Loans fully secured on land	**-**	-	**-**	-
	4,930.3	4,741.1	**3,390.3**	3,143.3
Fair value adjustment for hedged risk	**25.7**	39.3	**5.5**	15.0
Less: impairment provisions	**(103.7)**	(88.8)	**(2.5)**	(2.4)
	4,852.3	4,691.6	**3,393.3**	3,155.9

Included within loans and advances to customers are £398.3m (2019/20: £417.2m) of commercial lending balances of which £18.6m (2019/20: £22.7m) have been sold by the Group to bankruptcy remote structured entities. A further £744.3m (2019/20: £931.3m) of residential mortgage balances, included within loans and advances, have also been sold by the Group to structured entities. The structured entities have been funded by issuing mortgage backed securities (MBSs), a proportion of which are held by the Society, at a carrying value of £543.0m (2019/20: £580.4m).

14. Allowance for losses on loans and advances

Group	**Group** Loans fully secured on residential property £m	Loans fully secured on land £m	**Total £m**	**Society** Loans fully secured on residential property £m
At 1 April 2020	7.0	81.8	**88.8**	**2.4**
Amounts written off	-	(2.6)	**(2.6)**	**-**
Charge for the year comprising:				
Provision for loan impairment	5.3	12.9	**18.2**	**0.3**
Change in carrying value of deemed loan	-	1.3	**1.3**	**-**
Adjustments to provisions resulting from recoveries	(0.5)	(0.2)	**(0.7)**	**(0.2)**
Charge for the year	4.8	14.0	**18.8**	**0.1**
Non-recourse finance on securitised advances	-	(1.3)	**(1.3)**	**-**
At 31 March 2021	**11.8**	**91.9**	**103.7**	**2.5**

Group	Group Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m	Society Loans fully secured on residential property £m
At 1 April 2019	6.0	70.7	76.7	1.2
Amounts written off	(1.9)	(7.3)	(9.2)	-
Charge for the year comprising:				
Provision for loan impairment	3.5	19.0	22.5	1.6
Change in carrying value of deemed loan	-	(3.8)	(3.8)	-
Adjustments to provisions resulting from recoveries	(0.6)	(0.6)	(1.2)	(0.4)
Charge for the year	2.9	14.6	17.5	1.2
Non-recourse finance on securitised advances	-	3.8	3.8	-
At 31 March 2020	7.0	81.8	88.8	2.4

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

During the year there were impairment gains of £1.3m (2019/20: £3.8m charges) against mortgages transferred to structured entities, Sandwell Commercial Finance No.1 Plc: £0.2m gain (2019/20: £0.2m gain) and Sandwell Commercial Finance No. 2 Plc: £1.1m gain (2019/20: £4.0m charge). The gains or losses from these impairments are borne by the external loan note holders as they exceed the first loss exposure held by the Group. Impairment provisions at the end of the year include £4.3m (2019/20: £8.0m) against loans in structured entity, Sandwell Commercial Finance No. 2 Plc. The carrying value of the deemed loan has been adjusted by an equivalent amount.

15. Investments

	Shares in subsidiary undertakings		Loans to subsidiary undertakings		Total	
Society	**2021 £m**	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Cost						
At beginning of year	**0.6**	0.6	**1,295.6**	1,343.7	**1,296.2**	1,344.3
Decrease for the year	**-**	-	**(24.8)**	(48.1)	**(24.8)**	(48.1)
At end of year	**0.6**	0.6	**1,270.8**	1,295.6	**1,271.4**	1,296.2
Provisions						
At beginning of year	**0.5**	-	**159.4**	128.5	**159.9**	128.5
Charge for the year	**-**	0.5	**29.7**	30.9	**29.7**	31.4
At end of year	**0.5**	0.5	**189.1**	159.4	**189.6**	159.9
Net book value at end of year	**0.1**	0.1	**1,081.7**	1,136.2	**1,081.8**	1,136.3

The value of the Society's investment in West Bromwich Commercial Limited has been assessed by comparison of the amount owed to the Society against the net assets of the subsidiary. Following continued contraction of the commercial mortgage book and the additional losses recognised within West Bromwich Commercial Limited, it has been necessary to write down the value of the investment by £14.8m (2019/20: £30.9m) in the Society's Income Statement, with £nil (2019/20: £nil) recognised in equity. An assessment has also been performed in respect of the value of the Society's investment in West Bromwich Mortgage Company Limited. It has been necessary to write down the value of the investment by £14.9m (2019/20: £nil).

The Society's impairment in its subsidiary undertaking, Insignia Finance Limited was £nil (2019/20:£0.5m).

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 37.

Securitisation entities

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

Name	Country of incorporation	Principal activity
Hawthorn Asset Co Limited	United Kingdom	Securitisation entity
Hawthorn Finance Limited	Jersey	Securitisation entity
Kenrick No. 3 Holdings Limited	United Kingdom	Holding company
Kenrick No. 3 Plc	United Kingdom	Securitisation entity
Kenrick No.4 Holdings Limited	United Kingdom	Holding company
Kenrick No.4 Plc	United Kingdom	Securitisation entity - non trading
West Bromwich Funding Limited (3)	United Kingdom	Funding vehicle

(3) West Bromwich Funding Limited was dissolved on 4 July 2020.

The registered office of Hawthorn Asset Co Limited is Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

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

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

Kenrick No.4 Plc and Kenrick No.4 Holdings Limited did not trade during the year and were both dormant.

The Society has no shareholdings in any of the companies listed above. Unless stated otherwise above, all are incorporated in the United Kingdom and operate in Great Britain.

16. Intangible assets

Group	**Goodwill 2021 £m**	**Purchased software 2021 £m**	**Development costs 2021 £m**	**Total 2021 £m**	Goodwill 2020 £m	Purchased software 2020 £m	Development costs 2020 £m	Total 2020 £m
Cost								
At beginning of year	**0.5**	**17.3**	**24.9**	**42.7**	0.5	15.4	21.7	37.6
Additions	**-**	**1.4**	**3.3**	**4.7**	-	1.9	3.2	5.1
At end of year	**0.5**	**18.7**	**28.2**	**47.4**	0.5	17.3	24.9	42.7
Aggregate amortisation								
At beginning of year	**0.5**	**12.5**	**13.4**	**26.4**	-	10.4	10.7	21.1
Charge for the year	**-**	**1.6**	**3.1**	**4.7**	0.5	2.1	2.7	5.3
At end of year	**0.5**	**14.1**	**16.5**	**31.1**	0.5	12.5	13.4	26.4
Net book value at end of year	**-**	**4.6**	**11.7**	**16.3**	-	4.8	11.5	16.3
Net book value at beginning of year	**-**	**4.8**	**11.5**	**16.3**	0.5	5.0	11.0	16.5

16. Intangible assets (continued)

Society	Goodwill 2021 £m	Computer software 2021 £m	Development costs 2021 £m	Total 2021 £m	Goodwill 2020 £m	Computer software 2020 £m	Development costs 2020 £m	Total 2020 £m
Cost								
At beginning of year	-	17.3	24.9	42.2	-	15.4	21.6	37.0
Additions	-	1.4	3.3	4.7	-	1.9	3.3	5.2
At end of year	-	18.7	28.2	46.9	-	17.3	24.9	42.2
Aggregate amortisation								
At beginning of year	-	12.5	13.4	25.9	-	10.4	10.7	21.1
Charge for the year	-	1.6	3.1	4.7	-	2.1	2.7	4.8
At end of year	-	14.1	16.5	30.6	-	12.5	13.4	25.9
Net book value at end of year	-	4.6	11.7	16.3	-	4.8	11.5	16.3
Net book value at beginning of year	-	4.8	11.5	16.3	-	5.0	10.9	15.9

17. Investment properties

	Group 2021 £m	Group 2020 £m
Valuation		
At beginning of year	138.9	134.7
Disposals and other movements	0.1	-
Revaluation gains	4.0	4.2
At end of year	143.0	138.9

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

Independent specialist valuers 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). A separate firm of independent valuers 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 £143.3m at 31 March 2021. A provision of £0.2m (2019/20: £0.3m) for lease enfranchisement costs and a provision of £0.1m (2019/20: £nil) for cladding costs, has been deducted from the portfolio valuation to arrive at the final valuation of £143.0m.

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 investment properties were carried at cost, the carrying amount would be £84.2m (2019/20: £84.4m).

The Group leases investment properties to non-commercial individuals for a contract period of up to 36 months. The future minimum lease receipts under non-cancellable operating leases that end within 12 months are £2.2m (2019/20: £2.5m), and an additional £2.1m up to 36 months (2019/20: £1.7m). The Group has not recognised any contingent rent in the period (2019/20: £nil).

18. Property, plant and equipment

	Land and buildings						
Group	**Freehold branches £m**	**Head office £m**	**Held for sale £m**	**Leasehold improvements £m**	**Equipment, fixtures, fittings and vehicles £m**	**Right-of-use assets £m**	**Total £m**
Cost or valuation							
At 1 April 2020	4.9	21.2	-	1.2	19.5	3.1	**49.9**
Additions	-	-	-	-	0.5	-	**0.5**
Lease modifications and remeasurements	-	-	-	-	-	(0.4)	**(0.4)**
At 31 March 2021	**4.9**	**21.2**	**-**	**1.2**	**20.0**	**2.7**	**50.0**
Accumulated depreciation							
At 1 April 2020	0.3	3.7	-	0.7	16.6	0.4	**21.7**
Charge for the year	0.1	1.0	-	0.2	1.7	0.4	**3.4**
At 31 March 2021	**0.4**	**4.7**	**-**	**0.9**	**18.3**	**0.8**	**25.1**
Net book value							
At 31 March 2021	**4.5**	**16.5**	**-**	**0.3**	**1.7**	**1.9**	**24.9**

	Land and buildings						
Group	Freehold branches £m	Head office £m	Held for sale £m	Leasehold improvements £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost or valuation							
At 1 April 2019	4.9	21.2	0.5	1.0	24.3	-	51.9
Recognition of leases upon adoption of IFRS 16	-	-	-	-	-	2.6	2.6
At 1 April 2019 including impact of IFRS 16 adoption	4.9	21.2	0.5	1.0	24.3	2.6	54.5
Additions	-	-	-	0.2	0.2	0.5	0.9
Disposals	-	-	(0.5)	-	(5.0)	-	(5.5)
At 31 March 2020	4.9	21.2	-	1.2	19.5	3.1	49.9
Accumulated depreciation							
At 1 April 2019	0.2	2.7	-	0.6	20.0	-	23.5
Charge for the year	0.1	1.0	-	0.1	1.6	0.4	3.2
Disposals	-	-	-	-	(5.0)	-	(5.0)
At 31 March 2020	0.3	3.7	-	0.7	16.6	0.4	21.7
Net book value							
At 31 March 2020	4.6	17.5	-	0.5	2.9	2.7	28.2

18. Property, plant and equipment (continued)

	Land and buildings						
Society	**Freehold branches £m**	**Head office £m**	**Held for sale £m**	**Leasehold improvements £m**	**Equipment, fixtures, fittings and vehicles £m**	**Right-of-use assets £m**	**Total £m**
Cost or valuation							
At 1 April 2020	4.9	21.2	-	1.2	19.3	3.1	**49.7**
Additions	-	-	-	-	0.5	-	**0.5**
Lease modifications and remeasurements	-	-	-	-	-	(0.4)	**(0.4)**
At 31 March 2021	**4.9**	**21.2**	**-**	**1.2**	**19.8**	**2.7**	**49.8**
Accumulated depreciation							
At 1 April 2020	0.3	3.9	-	0.7	16.2	0.4	**21.5**
Charge for the year	0.1	1.0	-	0.2	1.7	0.4	**3.4**
At 31 March 2021	**0.4**	**4.9**	**-**	**0.9**	**17.9**	**0.8**	**24.9**
Net book value							
At 31 March 2021	**4.5**	**16.3**	**-**	**0.3**	**1.9**	**1.9**	**24.9**

	Land and buildings						
Society	Freehold branches £m	Head office £m	Held for sale £m	Leasehold improvements £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost or valuation							
At 1 April 2019	4.9	21.2	0.5	1.0	24.1	-	51.7
Recognition of leases upon adoption of IFRS 16	-	-	-	-	-	2.6	2.6
At 1 April 2019 including impact of IFRS 16 adoption	4.9	21.2	0.5	1.0	24.1	2.6	54.3
Additions	-	-	-	0.2	0.2	0.5	0.9
Disposals	-	-	(0.5)	-	(5.0)	-	(5.5)
At 31 March 2020	4.9	21.2	-	1.2	19.3	3.1	49.7
Accumulated depreciation							
At 1 April 2019	0.2	2.7	-	0.6	19.8	-	23.3
Transfers	-	0.2	-	-	(0.2)	-	-
Charge for the year	0.1	1.0	-	0.1	1.6	0.4	3.2
Disposals	-	-	-	-	(5.0)	-	(5.0)
At 31 March 2020	0.3	3.9	-	0.7	16.2	0.4	21.5
Net book value							
At 31 March 2020	4.6	17.3	-	0.5	3.1	2.7	28.2

The average remaining term of right-of-use assets at 31 March 2021 was 4.3 years (2019/20: 5.7 years).

The net book value of land and buildings occupied for the Society's own activities at 31 March is £21.1m (2019/20: £22.4m).

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. This fair value measurement is categorised as a Level 3 fair value measurement in the current year.

If land and buildings were carried at historical cost, the carrying amount would be £17.5m (2019/20: £18.7m).

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

19. Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 19% (2019/20:19%). The movement on the deferred tax account is as follows:

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
At beginning of year	**13.7**	13.1	**11.3**	8.7
Current year Income Statement credit	**1.5**	0.8	**2.5**	2.6
Amount recognised directly in other comprehensive income	**(1.4)**	0.1	**(1.4)**	0.1
Adjustments in respect of prior years	**(0.1)**	(0.3)	**(0.1)**	(0.1)
At end of year	**13.7**	13.7	**12.3**	11.3

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Deferred tax assets				
Accelerated tax depreciation	**5.3**	6.2	**5.3**	6.2
Carried forward tax losses	**10.4**	6.8	**7.9**	4.4
Pensions and other post retirement benefits	**-**	0.5	**-**	0.5
Other temporary differences	**5.6**	6.9	**1.2**	1.9
	21.3	20.4	**14.4**	13.0
Deferred tax liabilities				
Property valuations	**(6.2)**	(5.7)	**(0.7)**	(0.7)
Other temporary differences	**(1.2)**	(1.0)	**(1.2)**	(1.0)
Pensions and other post retirement benefits	**(0.2)**	-	**(0.2)**	-
	(7.6)	(6.7)	**(2.1)**	(1.7)

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Accelerated tax depreciation	**(0.9)**	1.7	**(0.9)**	1.7
Other provisions	**(0.7)**	0.1	**(0.1)**	-
Carried forward tax losses	**3.6**	0.4	**3.5**	1.5
Property valuations	**(0.6)**	(1.0)	**-**	-
	1.4	1.2	**2.5**	3.2

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable over the foreseeable future. The deferred tax asset balances attributable to carried forward losses are expected to be substantially recovered against future taxable profits (as projected in the latest Strategic Plan) within five years. The assumptions surrounding future expected credit losses and increases in the Bank Rate of interest represent the most subjective areas of judgement in management's projections of future taxable profits. The deferred tax assets have not been discounted. Unused tax losses, which have not been recognised within deferred tax assets at 31 March 2021, amounted to Group: £40.7m (2019/20: £46.0m) and Society: £nil (2019/20: £15.0m). These losses will be available to offset against future taxable profits, subject to certain loss restriction rules set by HMRC.

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

The Budget on 3 March 2021 announced an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. This change was not substantively enacted at the balance sheet date and hence has not been reflected in the measurement of deferred tax balances at the period end. If the Group's deferred tax balances at the period end were remeasured at 25% this would result in an increase to the deferred tax asset of £4.3m, to £17.9m.

20. Trade and other receivables

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Prepayments and accrued income	**2.2**	3.5	**2.2**	3.3
Other	**0.4**	0.6	**0.4**	0.4
	2.6	4.1	**2.6**	3.7

21. Shares

Group and Society	2021 £m	2020 £m
Held by individuals	**4,233.0**	3,845.1
Other shares	**1.1**	1.0
	4,234.1	3,846.1

22. Amounts due to other customers

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society* 2020 £m
Deemed loans	**13.9**	14.0	**202.5**	274.4
Other customers	**77.0**	80.6	**77.1**	80.3
	90.9	94.6	**279.6**	354.7

*Deemed loans have been restated as explained in Note 40

23. Debt securities in issue

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Certificates of deposit	**-**	1.0	**-**	1.0
Non-recourse finance on securitised advances	**217.9**	265.3	**-**	-
	217.9	266.3	**-**	1.0

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.

For the purposes of the Statements of Cash Flows, debt securities in issue are classified as liabilities arising from financing activities. The following table analyses movements in debt securities in issue.

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
At beginning of year	**266.3**	344.1	**1.0**	1.0
Financing cash flows				
Repayments of debt securities in issue	**(49.2)**	(57.5)	**(1.0)**	-
Non-cash flows:				
Accrued interest	**-**	0.6	**-**	-
Amortisation	**0.5**	0.4	**-**	-
Other movements*	**0.3**	(21.3)	**-**	-
At end of year	**217.9**	266.3	**-**	1.0

*Other movements in debt securities in issue in the prior year relates to the derecognition of debt securities in issue following the deconsolidation of commercial securitised entities from the Group.

24. Trade and other payables

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Accruals	**6.6**	7.0	**6.0**	6.5
Lease liabilities	**2.0**	2.8	**2.0**	2.8
Other creditors	**3.8**	5.4	**3.5**	4.8
	12.4	15.2	**11.5**	14.1

The maturity analysis of lease liabilities is included in note 36.

The movement in lease liabilities in the year is analysed in the table below:

Group and Society	2021 £m	2020 £m
At beginning of year	**2.8**	-
Recognition of lease liabilities on adoption of IFRS 16	**-**	2.8
Additions	**-**	0.5
Modifications/remeasurements of existing lease liabilities	**(0.4)**	-
Interest charged	**0.1**	0.1
Lease payments	**(0.5)**	(0.6)
At end of year	**2.0**	2.8

25. Provisions for liabilities

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
At beginning of year	**0.6**	1.4	**0.5**	0.9
Utilised in the year	**(0.1)**	(1.5)	**(0.1)**	(0.9)
Charge for the year	**0.1**	0.7	**0.1**	0.5
At end of year	**0.6**	0.6	**0.5**	0.5

Other provisions

Other provisions primarily relate to Payment Protection Insurance (PPI) redress. The level of provision has reduced after the 29 August 2019 deadline set by the Financial Conduct Authority (FCA) was passed.

26. Subscribed capital

	Number of shares		Carrying value	
Group and Society	**2021**	2020	**2021 £m**	2020 £m
Permanent interest bearing shares				
At beginning of year	**8,891**	8,891	**8.9**	8.9
Purchase and cancellation of PIBS	**(1,044)**	-	**(1.1)**	-
At end of year	**7,847**	8,891	**7.8**	8.9

The 6.15% permanent interest bearing shares (PIBS) comprise 7,847 PIBS of £1,000 each issued at a price of 99.828% of their principal amount, with the issue premium amortised.

On 22 July 2020, the Society purchased and cancelled £1,044,000 of its remaining PIBS. A gain was recognised on the repurchase representing the difference between amounts paid and the nominal value.

The PIBS are repayable at the option of the Society in whole on the 5 April 2021 or any scheduled interest payment thereafter, subject to PRA approval.

In a winding up or dissolution of the Society the claims of the holders of permanent interest bearing shares (PIBS) would rank behind all other creditors of the Society, with the exception of the claims of holders of core capital deferred shares (CCDS). The holders of PIBS are not entitled to any share in any final surplus upon winding up or dissolution of the Society.

Future interest payments are at the discretion of the Society, up to a maximum 6.15% prior to 5 April 2021 and, thereafter, a rate of interest reset periodically and equal to the applicable 5-year gilt rate plus a margin of 2.8%. As announced on 2 October 2020, the Board resolved not to make an interest payment on the scheduled interest payment date of 5 October 2020. The Board further resolved not to make an interest payment on the scheduled interest payment date of 5 April 2021.

Whilst noting that any interest payments on the PIBS are at the sole discretion of the Society, the Society announced during its capital restructuring in 2018 that any future payments on PIBS will be made only if and to the extent that they would have been permitted had the LME not taken place, and in the context of determining the equivalent annual yield that would have been paid to holders of the Society's Profit Participating Deferred Shares (PPDS) had they remained in issue on their original terms. Under the terms and conditions of the PPDS (which are available for viewing on the Society's website), the Society's ability to pay PPDS distributions was constrained by reference to a percentage of profits generated in the relevant financial year, and to the extent of any positive balance on a special PPDS reserve account (to which a percentage of profits or losses of the Society was allocated each year).

Whilst PPDS instruments no longer exist (having been exchanged during the LME), the Society continues to monitor a notional PPDS reserve. At 31 March 2018 (the last accounting date before the completion of the LME) the deficit on the PPDS reserve stood at £9.1m. At 31 March 2020, the Society disclosed a deficit balance on this notional reserve of £5.7m. For the year ended 31 March 2021, the Society generated a reported profit after tax of £5.1m, including the impact of £2.5m Tier 2 interest payable. The net profit disregarding Tier 2 interest (after tax) would therefore have been £7.1m. Accordingly, during the year the notional PPDS reserve deficit reduced by £1.8m (25% of £7.1m) leaving a deficit of £3.9m at 31 March 2021.

27. Core capital deferred shares

Group and Society	Number of shares	CCDS nominal amount £m	Share premium £m	Total £m
At 31 March 2020	1,288,813	1.3	125.7	**127.0**
At 31 March 2021	**1,288,813**	**1.3**	**125.7**	**127.0**

CCDS are perpetual instruments and a form of Common Equity Tier 1 (CET 1) capital.

CCDS are the most junior-ranking capital instrument of the Society, ranking behind the claims of all depositors, payables and investing members.

Each holder of CCDS has one vote, regardless of the number of CCDS held.

The CCDS holders are entitled to receive a distribution at the discretion of the Society. The total distribution paid on each CCDS in respect of any given financial year of the Society is subject to a cap provided for in the Rules of the Society and adjusted annually for inflation. The Directors declared a final distribution in May 2020 of £0.50 per CCDS in respect of the period to 31 March 2020, which was paid in August 2020. The Directors declared an interim distribution of £0.50 per CCDS in respect of the period to 30 September 2020 which was paid in February 2021. These distributions have been recognised in the Statement of Changes in Members' Interests and Equity. In May 2021 the Directors declared they expect to pay a final distribution for the period to 31 March 2021 of £0.75 per CCDS which would be paid in August 2021. The final distribution is not reflected in these financial statements as distributions to the CCDS holders are recognised with reference to the date they are declared.

In the event of a winding up or dissolution of the Society, the share of surplus assets (if any) a CCDS holder would be eligible to receive is determined by the calculation of a core capital contribution proportion, limited to a maximum of the average principal amount, currently £100 per CCDS.

28. Subordinated liabilities

Group and Society	2021 £m	2020 £m
Subordinated notes due 2038 – 11.0%	**22.8**	22.8

The Society's subordinated notes rank behind all other creditors of the Society, with the exception of holders of CCDS and PIBS.

For the purposes of the Statements of Cash Flows, subordinated liabilities are classified as liabilities arising from financing activities. The following table analyses movements in subordinated liabilities.

Group and Society	2021 £m	2020 £m
At beginning of year	**22.8**	22.8
Financing cash flows		
Interest paid on subordinated liabilities	**(2.5)**	(2.5)
Non-cash flows:		
Accrued interest (settled during the year)	**1.3**	1.3
Accrued interest (carried forward)	**1.2**	1.2
At end of year	**22.8**	22.8

29. Financial assets and liabilities at fair value through profit or loss (FVTPL)

Financial assets mandatorily measured at FVTPL
The Society's closed portfolio of equity release mortgages is held at FVTPL under IFRS 9. The movements on the portfolio during the year are analysed in the table below.

Group and Society	2021 £m	2020 £m
At 1 April 2020	**13.3**	14.8
Interest added	**0.8**	1.0
Redemptions	**(1.4)**	(2.4)
Changes in fair value	**(0.2)**	(0.1)
At 31 March 2021	**12.5**	13.3

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

Group	**Before tax amount 2021 £m**	**Taxation 2021 £m**	**Net of tax amount 2021 £m**
Fair value through other comprehensive income investments	3.7	(0.7)	**3.0**
Retirement benefit obligations	(0.3)	0.1	**(0.2)**
Other comprehensive income	3.4	(0.6)	**2.8**

Group	Before tax amount 2020 £m	Taxation 2020 £m	Net of tax amount 2020 £m
Fair value through other comprehensive income investments	(2.2)	0.4	(1.8)
Retirement benefit obligations	(0.7)	0.3	(0.4)
Other comprehensive income	(2.9)	0.7	(2.2)

Society	**Before tax amount 2021 £m**	**Taxation 2021 £m**	**Net of tax amount 2021 £m**
Fair value through other comprehensive income investments	3.7	(0.7)	**3.0**
Retirement benefit obligations	(0.3)	0.1	**(0.2)**
Other comprehensive income	3.4	(0.6)	**2.8**

Society	Before tax amount 2020 £m	Taxation 2020 £m	Net of tax amount 2020 £m
Fair value through other comprehensive income investments	(2.2)	0.4	(1.8)
Retirement benefit obligations	(0.7)	0.3	(0.4)
Other comprehensive income	(2.9)	0.7	(2.2)

31. Retirement benefit obligations

Group and Society	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Net defined benefit pension scheme (asset)/obligation	**(1.1)**	2.7	4.9	5.1	6.5

Defined benefit plans

The Society operates the West Bromwich Building Society Staff Retirement Scheme (SRS), a funded pension scheme providing benefits for some of its employees based on final pensionable emoluments. The assets of the Scheme are held in a separate Trustee administered fund. In addition, the Society has an unregistered arrangement in place in respect of one former Director. The financial effect of this arrangement is included in this note.

The results of a formal actuarial valuation at 31 March 2019 carried out by the appointed actuary to the Scheme have been rolled forward to the accounting date by an independent qualified actuary and updated in accordance with IAS 19, 'Employee Benefits'. Pension obligations are valued differently for accounting and funding purposes. In accordance with IAS 19, best estimate assumptions are used to determine the retirement benefit obligation shown in the Statement of Financial Position whereas the funding valuations use more prudent assumptions and also include allowance for future administration costs, which are not included in the IAS 19 valuation.

The Society closed the Scheme to the future accrual of benefits with effect from 1 August 2009, at which date all previously active members became entitled to deferred pensions in the Scheme.

As part of the ongoing funding agreement for the SRS, the Trustee of the SRS has been granted a charge over the Society's Head Office, which may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS. In addition to this, the estimated amount of total employer deficit contributions expected to be paid to the Scheme during 2021/22, based on the required amounts under the schedule of contributions, is £4.5m.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 and the Pensions Act 2021, which received royal assent in February 2021. This, together with associated regulations and documents issued by the Pensions Regulator, sets out the framework for funding defined benefit occupational pension schemes in the UK.

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

The weighted average duration of the expected benefit payments from the Scheme is around 18 years.

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

Group and Society	2021	2020	2019	2018	2017
Pension increases in payment (RPI capped at 5%)	**3.1%**	2.5%	3.0%	3.0%	3.1%
Pension increases in payment (CPI capped at 2.5%)	**1.9%**	1.5%	1.8%	1.7%	1.7%
Discount rate	**2.1%**	2.3%	2.4%	2.8%	2.8%
Life expectancy of male aged 65 at year end date	**21.8**	21.8	22.4	22.9	23.2
Life expectancy of female aged 65 at year end date	**23.9**	23.7	23.4	23.8	24.2
Life expectancy of male aged 65 at year end date plus 20 years	**23.1**	23.1	23.7	24.3	25.0
Life expectancy of female aged 65 at year end date plus 20 years	**25.3**	25.2	24.9	25.3	26.1

The discount rate used reflects the exceptional market conditions that existed at 31 March 2021. The sensitivity of the defined benefit obligation to changes in the significant actuarial assumptions is shown in the table below (on a gross basis, prior to the application of hedging arrangements which are described in the 'Scheme assets' section of this note):

Group and Society	2021 (Decrease)/ Increase £m	2020 (Decrease)/ Increase £m
Discount rate		
Effect on defined benefit obligation of a 1% increase	**(19.0)**	(16.7)
Inflation		
Effect on defined benefit obligation of a 1% increase	**16.0**	14.8
Life expectancy		
Effect on defined benefit obligation of a 1 year increase	**4.3**	3.4

31. Retirement benefit obligations (continued)

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

Group and Society	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Present value of funded obligations	**119.9**	108.2	113.1	108.5	113.2
Present value of unfunded obligations	**0.8**	0.7	0.8	0.7	0.8
	120.7	108.9	113.9	109.2	114.0
Fair value of scheme assets	**(121.8)**	(106.2)	(109.0)	(104.1)	(107.5)
Net (asset)/liability in the Statement of Financial Position	**(1.1)**	2.7	4.9	5.1	6.5

The amounts recognised in the Income Statement are as follows:

Group and Society	2021 £m	2020 £m	2019 £m
Interest cost	**2.5**	2.7	3.0
Interest receivable on plan assets	**(2.4)**	(2.6)	(2.9)
Running costs	**0.4**	0.4	0.2
Past service cost	**-**	-	0.4
Total pension fund cost	**0.5**	0.5	0.7

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

The 2018/19 past service cost of £0.4m represents the estimated costs of Guaranteed Minimum Pension (GMP) equalisation, in response to the High Court ruling in the Lloyds Bank GMP Inequalities case on 26 October 2018. Over the period to 31 March 2021, the Trustee and Society have not taken any formal decisions over the process, nor have they received updated assessments of the potential cost of the judgment. There has therefore been no further change to the estimated costs of equalisation in response to the 2018 judgment.

On 20 November 2020, the High Court handed down a further judgment, stating that pension schemes should pay uplifts in respect of members who had transferred benefits out in the past (back to 17 May 1990), where those benefits were not equalised in line with the 2018 judgment. The costs of complying with this judgment are estimated to be less than £0.1m. A reserve for this amount has been included within the benefit obligations as at 31 March 2021. This additional liability has been treated as a past service cost.

The amounts recognised in the Statement of Comprehensive Income are as follows:

Group and Society	2021 £m	2020 £m
Actuarial losses/(gains) arising from:		
Financial assumptions	**14.5**	(5.1)
Demographic assumptions	**(0.4)**	0.8
Experience adjustments	**(0.6)**	0.3
Return on plan assets (excluding interest)	**(13.2)**	4.7
Total amount recognised in Other Comprehensive Income	**0.3**	0.7

Change in benefit obligations

Group and Society	2021 £m	2020 £m	2019 £m
Benefit obligations at beginning of year	**108.9**	113.9	109.2
Interest cost	**2.4**	2.7	3.0
Actuarial losses/(gains)	**13.5**	(4.0)	5.1
Running costs (release of reserve)	**-**	-	(0.1)
Benefits paid	**(4.1)**	(3.7)	(3.7)
Past service cost	**-**	-	0.4
Benefit obligations at end of year	**120.7**	108.9	113.9

Change in scheme assets

Group and Society	2021 £m	2020 £m	2019 £m
Fair value of scheme assets at beginning of year	**106.2**	109.0	104.1
Interest receivable on plan assets	**2.4**	2.6	2.9
Actuarial gains/(losses)	**13.2**	(4.7)	2.6
Contribution by employer	**4.5**	3.4	3.4
Running costs	**(0.4)**	(0.4)	(0.3)
Benefits paid	**(4.1)**	(3.7)	(3.7)
Fair value of scheme assets at end of year	**121.8**	106.2	109.0

The amount recognised outside profit and loss in the Statement of Comprehensive Income for 2020/21 is an actuarial loss of £0.3m (2019/20: loss £0.7m). The cumulative amount recognised outside profit and loss at 31 March 2021 is an actuarial loss of £58.7m.

History of experience gains and losses

Group and Society	2021	2020	2019	2018	2017
Experience gains/(losses) on scheme assets:					
Amount (£m)	**13.2**	(4.7)	2.6	(4.1)	10.6
Percentage of scheme assets	**12%**	(4%)	2%	(4%)	10%
Experience (gains)/losses on scheme liabilities:					
Amount (£m)	**(0.6)**	0.3	-	0.7	(0.9)
Percentage of scheme liabilities	**(1%)**	0%	0%	1%	(1%)

Scheme assets

The value of the invested assets at 31 March 2021 was £121.8m, analysed as follows:

Group and Society	2021 £m	2020 £m	2019 £m
Diversified growth fund	**50.6**	60.2	55.8
Global equities	**14.5**	-	-
Corporate bonds	**5.9**	-	-
Liability driven investment	**32.0**	26.2	27.2
Insurance asset	**18.7**	17.7	18.7
Cash and other assets	**0.1**	2.1	7.3
	121.8	106.2	109.0

As part of its asset and liability matching investment strategy, designed to mitigate inflation and interest rate risk exposure, the Scheme has invested in 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 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 held in Diversified Growth Funds (DGFs). 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 £1.3m (2019/20: £1.2m).

For the period through to 31 July 2009 staff could contribute between 2% and 9% with the Society contributing on a sliding scale between 2% and 7%. From 1 August 2009 to 31 March 2018 staff were able to contribute between 2% and 10% with the Society providing matched funding. From 1 April 2018 staff within the stakeholder scheme were required to contribute between 3% and 10%, with the Society providing matched funding plus 0.6%. From 1 April 2019 staff within the stakeholder scheme are required to contribute between 4% and 10%, with the Society providing matched funding plus 0.6%.

32. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

The Group is a retailer of financial instruments, mainly in the form of mortgages and savings. The Group uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding, and to manage the risks arising from its operations. As a result of these activities, the Group is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk (principally interest rate risk). These risks are described in notes 33 to 35.

The use of derivative financial instruments for risk management purposes is described in note 12.

Classification of financial assets and financial liabilities

The following tables show the classification of the Group's and Society's financial assets and liabilities:

At 31 March 2021

Group	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	316.5	-	-	**316.5**
Loans and advances to credit institutions	107.3	-	-	**107.3**
Investment securities	-	275.6	0.9	**276.5**
Derivative financial instruments	-	-	6.5	**6.5**
Loans and advances to customers	4,839.8	-	12.5	**4,852.3**
Total financial assets	**5,263.6**	**275.6**	**19.9**	**5,559.1**
Non-financial assets				**209.4**
Total assets				**5,768.5**

	Amortised cost £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,234.1	-	**4,234.1**
Amounts due to credit institutions	751.8	-	**751.8**
Amounts due to other customers	90.9	-	**90.9**
Derivative financial instruments	-	40.5	**40.5**
Debt securities in issue	217.9	-	**217.9**
Subordinated liabilities	22.8	-	**22.8**
Total financial liabilities	**5,317.5**	**40.5**	**5,358.0**
Non-financial liabilities			**20.6**
Total liabilities			**5,378.6**

At 31 March 2020

Group	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	263.5	-	-	263.5
Loans and advances to credit institutions	123.6	-	-	123.6
Investment securities	-	284.3	1.0	285.3
Derivative financial instruments	-	-	4.5	4.5
Loans and advances to customers	4,678.3	-	13.3	4,691.6
Total financial assets	5,065.4	284.3	18.8	5,368.5
Non-financial assets				208.3
Total assets				5,576.8

	Amortised cost £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	3,846.1	-	3,846.1
Amounts due to credit institutions	883.8	-	883.8
Amounts due to other customers	94.6	-	94.6
Derivative financial instruments	-	54.2	54.2
Debt securities in issue	266.3	-	266.3
Subordinated liabilities	22.8	-	22.8
Total financial liabilities	5,113.6	54.2	5,167.8
Non-financial liabilities			25.2
Total liabilities			5,193.0

32. Financial instruments (continued)

At 31 March 2021

Society	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	316.5	-	-	**316.5**
Loans and advances to credit institutions	64.6	-	-	**64.6**
Investment securities	508.9	275.6	0.9	**785.4**
Derivative financial instruments	-	-	6.5	**6.5**
Loans and advances to customers	3,380.8	-	12.5	**3,393.3**
Investments	1,081.8	-	-	**1,081.8**
Total financial assets	**5,352.6**	**275.6**	**19.9**	**5,648.1**
Non-financial assets				**59.5**
Total assets				**5,707.6**
		Amortised cost £m	**Fair value through profit or loss £m**	**Total £m**
Liabilities				
Shares		4,234.1	-	**4,234.1**
Amounts due to credit institutions		752.1	-	**752.1**
Amounts due to other customers		279.6	-	**279.6**
Derivative financial instruments		-	39.1	**39.1**
Subordinated liabilities		22.8	-	**22.8**
Total financial liabilities		**5,288.6**	**39.1**	**5,327.7**
Non-financial liabilities				**14.1**
Total liabilities				**5,341.8**

At 31 March 2020

Society	Amortised cost Restated* £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total Restated* £m
Assets				
Cash and balances with the Bank of England	263.5	-	-	263.5
Loans and advances to credit institutions	78.6	-	-	78.6
Investment securities	546.2	284.3	1.0	831.5
Derivative financial instruments	-	-	4.5	4.5
Loans and advances to customers	3,142.6	-	13.3	3,155.9
Investments	1,136.3	-	-	1,136.3
Total financial assets	5,167.2	284.3	18.8	5,470.3
Non-financial assets				61.6
Total assets				5,531.9

	Amortised cost Restated* £m	Fair value through profit or loss £m	Total Restated* £m
Liabilities			
Shares	3,846.1	-	3,846.1
Amounts due to credit institutions	858.8	-	858.8
Amounts due to other customers	354.7	-	354.7
Derivative financial instruments	-	51.6	51.6
Subordinated liabilities	22.8	-	22.8
Total financial liabilities	5,082.4	51.6	5,134.0
Non-financial liabilities			20.0
Total liabilities			5,154.0

*Investment securities and deemed loans (included within amounts due to other customers) have been restated as explained in Note 40.

32. Financial instruments (continued)

Fair values of financial assets and financial liabilities

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

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

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

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

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

The carrying value of cash and balances with the Bank of England are assumed to approximate their fair value.

Financial assets and financial liabilities held at amortised cost

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

At 31 March 2021

Group	**Carrying value £m**	**Fair value Level 1 £m**	**Fair value Level 2 £m**	**Fair value Level 3 £m**	**Fair value Total £m**
Financial assets					
Loans and advances to credit institutions	**107.3**	-	107.3	-	**107.3**
Loans and advances to customers	**4,839.8**	-	-	4,854.3	**4,854.3**
	4,947.1	**-**	**107.3**	**4,854.3**	**4,961.6**
Financial liabilities					
Shares	**4,234.1**	-	-	4,231.5	**4,231.5**
Amounts due to credit institutions	**751.8**	-	751.8	-	**751.8**
Amounts due to other customers	**90.9**	-	77.0	13.8	**90.8**
Debt securities in issue	**217.9**	218.1	0.2	-	**218.3**
Subordinated liabilities	**22.8**	-	22.8	-	**22.8**
	5,317.5	**218.1**	**851.8**	**4,245.3**	**5,315.2**

At 31 March 2020

Group	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	123.6	-	123.6	-	123.6
Loans and advances to customers	4,678.3	-	-	4,707.3	4,707.3
	4,801.9	-	123.6	4,707.3	4,830.9
Financial liabilities					
Shares	3,846.1	-	-	3,827.4	3,827.4
Amounts due to credit institutions	883.8	-	883.8	-	883.8
Amounts due to other customers*	94.6	-	80.8	13.8	94.6
Debt securities in issue	266.3	258.0	1.7	-	259.7
Subordinated liabilities	22.8	-	22.8	-	22.8
	5,113.6	258.0	989.1	3,841.2	5,088.3

*Deemed loans of £13.8m have been recategorised as fair value level 3 in the current year (2019/20: fair value level 2) following a reassessment of the estimation technique.

At 31 March 2021

Society	**Carrying value £m**	**Fair value Level 1 £m**	**Fair value Level 2 £m**	**Fair value Level 3 £m**	**Fair value Total £m**
Financial assets					
Loans and advances to credit institutions	**64.6**	-	64.6	-	**64.6**
Investment securities	**508.9**	-	508.9	-	**508.9**
Loans and advances to customers	**3,380.8**	-	-	3,446.6	**3,446.6**
Investments	**1,081.8**	-	-	1,081.8	**1,081.8**
	5,036.1	**-**	**573.5**	**4,528.4**	**5,101.9**
Financial liabilities					
Shares	**4,234.1**	-	-	4,231.5	**4,231.5**
Amounts due to credit institutions	**752.1**	-	752.1	-	**752.1**
Amounts due to other customers	**279.6**	-	77.1	207.8	**284.9**
Subordinated liabilities	**22.8**	-	22.8	-	**22.8**
	5,288.6	**-**	**852.0**	**4,439.3**	**5,291.3**

At 31 March 2020

Society	Carrying value* £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	78.6	-	78.6	-	78.6
Investment securities	546.2	-	545.3	-	545.3
Loans and advances to customers	3,142.6	-	-	3,212.0	3,212.0
Investments**	1,136.3	-	-	1,136.3	1,136.3
	4,903.7	-	623.9	4,348.3	4,972.2
Financial liabilities					
Shares	3,846.1	-	-	3,827.4	3,827.4
Amounts due to credit institutions	858.8	-	858.8	-	858.8
Amounts due to other customers**	354.7	-	80.3	285.7	366.0
Debt securities in issue	1.0	-	1.0	-	1.0
Subordinated liabilities	22.8	-	22.8	-	22.8
	5,083.4	-	962.9	4,113.1	5,076.0

*Investment securities and deemed loans (included within amounts due to other customers) have been restated as explained in Note 40.

**Investments of £1,136.3m have been restated as fair value level 3 (2019/20: fair value level 1) following an updated valuation basis. Deemed loans of £285.7m have been recategorised as fair value level 3 in the current year (2019/20: fair value level 2) following a reassessment of the estimation technique.

32. Financial instruments (continued)

a) Loans and advances to customers
The fair value of loans and advances to customers has been determined taking into account factors such as impairment and interest rates. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2021.

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 2021.

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

Financial assets and financial liabilities held at fair value

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

Group	Level 1 2021 £m	Level 2 2021 £m	Level 3 2021 £m	Total 2021 £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	275.6	-	-	**275.6**
At fair value through profit or loss	0.9	-	-	**0.9**
Derivative financial instruments	-	6.5	-	**6.5**
Loans and advances to customers	-	-	12.5	**12.5**
	276.5	**6.5**	**12.5**	**295.5**
Financial liabilities				
Derivative financial instruments	-	40.5	-	**40.5**
	-	**40.5**	**-**	**40.5**

Group	Level 1 2020 £m	Level 2 2020 £m	Level 3 2020 £m	Total 2020 £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	284.3	-	-	284.3
At fair value through profit or loss	1.0	-	-	1.0
Derivative financial instruments	-	4.5	-	4.5
Loans and advances to customers	-	-	13.3	13.3
	285.3	4.5	13.3	303.1
Financial liabilities				
Derivative financial instruments	-	54.2	-	54.2
	-	54.2	-	54.2

Society	**Level 1 2021 £m**	**Level 2 2021 £m**	**Level 3 2021 £m**	**Total 2021 £m**
Financial assets				
Investment securities				
At fair value through other comprehensive income	275.6	-	-	**275.6**
At fair value through profit or loss	0.9	-	-	**0.9**
Derivative financial instruments	-	6.5	-	**6.5**
Loans and advances to customers	-	-	12.5	**12.5**
	276.5	**6.5**	**12.5**	**295.5**
Financial liabilities				
Derivative financial instruments	-	39.1	-	**39.1**
	-	**39.1**	**-**	**39.1**

Society	Level 1 2020 £m	Level 2 2020 £m	Level 3 2020 £m	Total 2020 £m
Investment securities				
At fair value through other comprehensive income	284.3	-	-	284.3
At fair value through profit or loss	1.0	-	-	1.0
Derivative financial instruments	-	4.5	-	4.5
Loans and advances to customers	-	-	13.3	13.3
	285.3	4.5	13.3	303.1
Financial liabilities				
Derivative financial instruments	-	51.6	-	51.6
	-	51.6	-	51.6

The Society's equity release mortgage portfolio is measured at fair value using a discounted cash flow model for which key inputs are not based on observable market data. The calculation therefore meets the definition of a level 3 valuation technique. Details of the key model assumptions and the fair value impact of changes in those assumptions are given in the accounting policies.

The table below analyses movements in the level 3 portfolio during the period.

Group and Society	**2021 £m**	2020 £m
Equity release portfolio		
At 1 April	**13.3**	14.8
Items recognised in the Income Statement		
Interest receivable and similar income	**0.8**	1.0
Fair value losses on financial instruments	**(0.2)**	(0.1)
Redemptions	**(1.4)**	(2.4)
At 31 March	**12.5**	13.3

There have been no transfers of financial assets or liabilities between levels of the valuation hierarchy in the period.

33. Credit risk

(a) Credit risk definition and management

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

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

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

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

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

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

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

The Group adopts a responsible approach to lending ensuring that loans are, and are expected to remain, affordable and the Responsible Lending Policy is approved annually by the Board.

The maximum credit risk exposure is the carrying value as shown in the tables on pages 126 to 129.

The Group's most significant exposures to credit risk are loans secured on UK residential properties and loans secured on UK land.

(b) Residential assets held at amortised cost

Concentration by loan type	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Prime owner occupied	**3,118.6**	2,859.1	**3,020.4**	2,750.7
Buy to let	**1,373.1**	1,422.9	**326.2**	347.9
Other	**49.6**	56.0	**0.8**	1.0
Gross balances	**4,541.3**	4,338.0	**3,347.4**	3,099.6
Expected credit loss provisions	**(11.8)**	(7.0)	**(2.5)**	(2.4)
Fair value hedge adjustments	**3.7**	11.8	**3.6**	11.8
	4,533.2	4,342.8	**3,348.5**	3,109.0

(i) Credit quality

The Group assesses credit risk on owner occupied and buy to let residential mortgages using behavioural scorecard and other analysis to determine probabilities of default across a number of rating grades. The IFRS 9 impairment models make use of this data, incorporating forecasts of future economic conditions and account-specific factors to produce forward-looking probabilities of default by account and allocating loans to one of three stages (as explained in note 1).

The table below analyses gross exposures to residential assets by 12-month probability of default and IFRS 9 stage at the reporting date, with the exception of the closed second charge lending portfolio for which probability of possession is used as a credit risk measure, rather than probability of default.

At 31 March 2021

	Group				Society			
Probability of default range (%)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
0.00 to < 0.25	3,189.0	309.4	-	**3,498.4**	2,641.9	126.0	-	**2,767.9**
0.25 to < 0.50	377.0	46.9	-	**423.9**	313.3	21.2	-	**334.5**
0.50 to < 0.75	32.5	43.5	-	**76.0**	9.8	7.3	-	**17.1**
0.75 to < 1.00	3.1	1.0	-	**4.1**	3.0	0.9	-	**3.9**
1.00 to < 5.00	164.8	186.9	-	**351.7**	51.7	108.2	-	**159.9**
5.00 to < 10.00	5.3	1.3	-	**6.6**	1.9	0.5	-	**2.4**
10.00 to < 100.00	47.8	28.5	-	**76.3**	5.7	15.5	-	**21.2**
100.00 (default)	37.5	-	57.7	**95.2**	18.2	-	22.3	**40.5**
Second charge	6.1	1.7	1.3	**9.1**	-	-	-	**-**
	3,863.1	**619.2**	**59.0**	**4,541.3**	**3,045.5**	**279.6**	**22.3**	**3,347.4**

At 31 March 2020

	Group				Society			
Probability of default range (%)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
0.00 to < 0.25	2,934.6	100.7	-	3,035.3	2,364.6	82.5	-	2,447.1
0.25 to < 0.50	605.5	49.4	-	654.9	376.7	21.8	-	398.5
0.50 to < 0.75	129.3	42.7	-	172.0	23.5	7.6	-	31.1
0.75 to < 1.00	34.1	5.3	-	39.4	0.6	-	-	0.6
1.00 to < 5.00	133.6	161.6	-	295.2	64.1	93.0	0.1	157.2
5.00 to < 10.00	11.1	1.0	-	12.1	4.9	0.6	-	5.5
10.00 to < 100.00	32.8	30.7	-	63.5	18.3	19.4	-	37.7
100.00 (default)	-	-	55.2	55.2	-	-	21.9	21.9
Second charge	7.0	2.1	1.3	10.4	-	-	-	-
	3,888.0	393.5	56.5	4,338.0	2,852.7	224.9	22.0	3,099.6

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

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Not past due	**4,506.8**	4,300.6	**3,333.8**	3,084.3
Past due 1 to 3 months	**14.0**	22.4	**5.6**	8.2
Past due 3 to 6 months	**8.8**	7.7	**4.3**	3.5
Past due 6 to 12 months	**5.3**	3.2	**1.3**	1.5
Past due over 12 months	**3.7**	1.2	**1.5**	0.8
Possessions	**2.7**	2.9	**0.9**	1.3
	4,541.3	4,338.0	**3,347.4**	3,099.6

33. Credit risk (continued)

(ii) Expected credit losses

The table below illustrates the IFRS 9 staging distribution of residential loans and advances to customers held at amortised cost, loan commitments and related expected credit loss provisions at the year end. Stage 2 loans have been further analysed to show those which are more than 30 days past due, the IFRS 9 backstop for identifying a significant increase in credit risk (SICR), and those which meet other SICR criteria as detailed in note 1 to the accounts.

At 31 March 2021

	Group			Society		
	Gross exposure £m	**Expected credit loss provision £m**	**Provision coverage %**	**Gross exposure £m**	**Expected credit loss provision £m**	**Provision coverage %**
Residential loans at amortised cost						
Stage 1	**3,863.1**	**1.8**	**0.05%**	**3,045.5**	**0.4**	**0.01%**
Stage 2						
> 30 days past due	**8.8**	**0.1**	**1.14%**	**3.3**	**-**	**0.00%**
Other SICR indicators	**610.4**	**5.6**	**0.92%**	**276.3**	**1.1**	**0.40%**
Provision overlays	**-**	**1.7**	**-**	**-**	**0.3**	**-**
Stage 3	**59.0**	**2.6**	**4.41%**	**22.3**	**0.7**	**3.14%**
	4,541.3	**11.8**	**0.26%**	**3,347.4**	**2.5**	**0.07%**
Loan commitments						
Stage 1	**252.3**	**-**	**0.00%**	**221.4**	**-**	**0.00%**

At 31 March 2020

	Group			Society		
	Gross exposure £m	Expected credit loss provision £m	Provision coverage %	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans at amortised cost						
Stage 1	3,888.0	1.1	0.03%	2,852.7	0.3	0.01%
Stage 2						
> 30 days past due	12.9	0.2	1.55%	4.5	-	0.00%
Other SICR indicators	380.6	1.5	0.39%	220.4	0.4	0.18%
Overlays in respect of payment holidays	-	1.0	-	-	0.8	-
Stage 3	56.5	3.2	5.66%	22.0	0.9	4.09%
	4,338.0	7.0	0.16%	3,099.6	2.4	0.08%
Loan commitments						
Stage 1	191.1	-	0.00%	175.9	-	0.00%

For the purposes of the disclosure above, gross exposures and expected credit loss provisions are rounded to the nearest £0.1m whereas the provision coverage percentages are based on the underlying data prior to rounding.

The tables below analyse the movement in gross residential exposures and the related expected credit loss allowances for the year ended 31 March 2021:

	Group				Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross exposure								
At 1 April 2020	3,888.0	393.5	56.5	**4,338.0**	2,852.7	224.9	22.0	**3,099.6**
Transfers due to increased credit risk:								
From stage 1 to stage 2	(346.2)	346.2	-	**-**	(134.4)	134.4	-	**-**
From stage 1 to stage 3	(11.3)	-	11.3	**-**	(4.6)	-	4.6	**-**
From stage 2 to stage 3	-	(9.1)	9.1	**-**	-	(3.6)	3.6	**-**
Transfers due to decreased credit risk:								
From stage 2 to stage 1	81.6	(81.6)	-	**-**	53.1	(53.1)	-	**-**
From stage 3 to stage 1	1.1	-	(1.1)	**-**	0.6	-	(0.6)	**-**
From stage 3 to stage 2	-	7.8	(7.8)	**-**	-	3.5	(3.5)	**-**
Mortgage advances	783.5	-	-	**783.5**	740.9	-	-	**740.9**
Net redemptions and repayments	(532.8)	(37.6)	(8.4)	**(578.8)**	(461.9)	(26.5)	(3.6)	**(492.0)**
Amounts written off	-	-	(0.5)	**(0.5)**	-	-	(0.2)	**(0.2)**
Other movements	(0.8)	-	(0.1)	**(0.9)**	(0.9)	-	-	**(0.9)**
At 31 March 2021	**3,863.1**	**619.2**	**59.0**	**4,541.3**	**3,045.5**	**279.6**	**22.3**	**3,347.4**

	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross exposure								
At 1 April 2019	3,887.2	414.9	61.7	4,363.8	2,802.2	222.1	24.0	3,048.3
Transfers due to increased credit risk:				-				-
From stage 1 to stage 2	(147.3)	147.3	-	-	(99.9)	99.9	-	-
From stage 1 to stage 3	(8.2)	-	8.2	-	(2.7)	-	2.7	-
From stage 2 to stage 3	-	(12.6)	12.6	-	-	(4.7)	4.7	-
Transfers due to decreased credit risk:				-				-
From stage 2 to stage 1	120.7	(120.7)	-	-	66.2	(66.2)	-	-
From stage 3 to stage 1	2.2	-	(2.2)	-	0.9	-	(0.9)	-
From stage 3 to stage 2	-	7.7	(7.7)	-	-	3.2	(3.2)	-
Mortgage advances	568.9	-	-	568.9	540.9	-	-	540.9
Net redemptions and repayments	(538.1)	(43.1)	(14.7)	(595.9)	(457.3)	(29.4)	(4.9)	(491.6)
Amounts written off	-	-	(2.5)	(2.5)	-	-	(0.4)	(0.4)
Other movements	2.6	-	1.1	3.7	2.4	-	-	2.4
At 31 March 2020	3,888.0	393.5	56.5	4,338.0	2,852.7	224.9	22.0	3,099.6

33. Credit risk (continued)

	Group				Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Expected credit loss provision								
At 1 April 2020	1.1	2.7	3.2	**7.0**	0.3	1.2	0.9	**2.4**
Transfers due to increased credit risk:								
From stage 1 to stage 2	(0.1)	3.2	-	**3.1**	-	0.6	-	**0.6**
From stage 1 to stage 3	(0.1)	-	0.4	**0.3**	-	-	0.1	**0.1**
From stage 2 to stage 3	-	(0.1)	0.5	**0.4**	-	(0.1)	0.1	**-**
Transfers due to decreased credit risk:								
From stage 2 to stage 1	0.1	(0.2)	-	**(0.1)**	-	(0.1)	-	**(0.1)**
From stage 3 to stage 1	-	-	(0.1)	**(0.1)**	-	-	-	**-**
From stage 3 to stage 2	-	-	(0.3)	**(0.3)**	-	-	(0.1)	**(0.1)**
Remeasurement of expected credit losses with no stage transfer	1.1	1.0	(0.3)	**1.8**	0.3	0.1	-	**0.4**
Redemptions	(0.2)	-	(0.1)	**(0.3)**	-	-	-	**-**
Amounts written off	-	-	(0.5)	**(0.5)**	-	-	(0.2)	**(0.2)**
Other movements	(0.1)	-	(0.2)	**(0.3)**	(0.2)	-	(0.1)	**(0.3)**
Movement in provision overlays	-	0.8	-	**0.8**	-	(0.3)	-	**(0.3)**
At 31 March 2021	**1.8**	**7.4**	**2.6**	**11.8**	**0.4**	**1.4**	**0.7**	**2.5**

	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Expected credit loss provision								
At 1 April 2019	0.6	1.1	4.3	6.0	0.1	0.2	0.9	1.2
Transfers due to increased credit risk:				-				-
From stage 1 to stage 2	-	0.5	-	0.5	-	0.2	-	0.2
From stage 1 to stage 3	-	-	0.5	0.5	-	-	0.1	0.1
From stage 2 to stage 3	-	(0.1)	0.8	0.7	-	(0.1)	0.2	0.1
Transfers due to decreased credit risk:				-				-
From stage 2 to stage 1	0.1	(0.3)	-	(0.2)	-	-	-	-
From stage 3 to stage 2	-	-	(0.2)	(0.2)	-	-	-	-
Remeasurement of expected credit losses with no stage transfer	0.4	0.5	0.5	1.4	0.2	0.1	0.2	0.5
Redemptions	(0.1)	-	(0.2)	(0.3)	-	-	(0.1)	(0.1)
Amounts written off	-	-	(2.5)	(2.5)	-	-	(0.4)	(0.4)
Other movements	0.1	-	-	0.1	-	-	-	-
Overlays in respect of payment holidays	-	1.0	-	1.0	-	0.8	-	0.8
At 31 March 2020	1.1	2.7	3.2	7.0	0.3	1.2	0.9	2.4

(iii) Geographical analysis

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
East Anglia	**119.3**	117.7	**84.2**	80.2
East Midlands	**475.7**	452.9	**374.6**	346.2
Greater London	**492.0**	478.6	**253.2**	229.8
Northern Ireland	**3.6**	3.7	**0.4**	0.5
North	**196.8**	187.3	**150.0**	138.2
North West	**576.4**	531.6	**433.1**	387.9
Scotland	**83.8**	89.6	**21.8**	23.4
South East	**784.4**	720.4	**567.0**	501.1
South West	**384.5**	363.3	**299.8**	271.7
Wales	**226.1**	219.7	**172.9**	163.3
West Midlands	**722.4**	725.0	**610.6**	610.4
Yorkshire	**476.3**	448.2	**379.8**	346.9
	4,541.3	4,338.0	**3,347.4**	3,099.6

(iv) Collateral

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
>95%	**2.0**	41.6	**0.7**	34.1
91% - 95%	**6.5**	176.0	**5.7**	167.3
86% - 90%	**203.0**	251.9	**194.7**	234.7
76% - 85%	**657.3**	655.6	**597.8**	524.7
51% - 75%	**2,261.1**	2,024.2	**1,545.0**	1,274.7
<51%	**1,411.4**	1,188.7	**1,003.5**	864.1
	4,541.3	4,338.0	**3,347.4**	3,099.6

The Group's average indexed loan to value at the year end date is 52.4% (2019/20: 53.8%), calculated as a simple average across all residential loans.

The following table indicates collateral held against residential loans and advances to customers by IFRS 9 stage:

Fair value of collateral held	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Stage 1	**8,143.5**	7,870.2	**6,357.7**	5,800.3
Stage 2	**1,265.1**	799.3	**585.8**	472.2
Stage 3	**142.6**	126.5	**62.0**	56.7
	9,551.2	8,796.0	**7,005.5**	6,329.2

The collateral held consists of properties included within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

33. Credit risk (continued)

(v) Forbearance

A range of forbearance strategies 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 vulnerabilities into consideration, and will be used in line with industry guidance. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans.

As outlined in the previous year-end Report and Accounts, the Society, in common with other lenders, granted payment deferrals to its borrowers. At 31 March 2021, payment deferrals had been utilised on 5,570 residential mortgage accounts (including White Label Loans), of which 23% had received an extension. An overlay is recorded to reflect the risk that granting of deferred payments has masked a true increase in credit risk. In calculating this overlay, the Society applies higher PDs for all borrowers who received a payment deferral extension reflecting the fact that the full impact on future arrears for this cohort is yet to be observed due to the ongoing government support schemes, i.e. furlough. Further details of the overlays are explained in note 1.

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

Group	**Arrangements 2021 £m**	**Concessions 2021 £m**	**Capitalisation 2021 £m**	**Term extensions 2021 £m**	**Total 2021 £m**
Not past due	10.1	0.2	0.8	0.5	**11.6**
Past due 1 to 3 months	2.1	0.1	0.1	-	**2.3**
Past due 3 to 6 months	1.9	0.5	0.1	-	**2.5**
Past due 6 to 12 months	0.7	0.1	-	-	**0.8**
Past due over 12 months	1.5	0.1	-	-	**1.6**
	16.3	**1.0**	**1.0**	**0.5**	**18.8**

Group	Arrangements 2020 £m	Concessions 2020 £m	Capitalisation 2020 £m	Term extensions 2020 £m	Total 2020 £m
Not past due	3.2	0.5	1.3	0.8	5.8
Past due 1 to 3 months	2.1	0.5	0.1	-	2.7
Past due 3 to 6 months	1.0	-	-	0.1	1.1
Past due 6 to 12 months	1.2	0.1	-	-	1.3
Past due over 12 months	0.4	0.1	-	-	0.5
	7.9	1.2	1.4	0.9	11.4

(c) Commercial assets

Commercial assets comprise a closed portfolio of non-core commercial loans which is analysed in the table below.

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Concentration by loan type				
Loans secured on commercial property	**361.6**	373.3	**16.3**	15.0
Loans secured on residential property	**14.9**	16.5	**14.1**	15.4
Gross balances	**376.5**	389.8	**30.4**	30.4
Fair value adjustments	**21.8**	27.4	**1.9**	3.2
Gross exposures	**398.3**	417.2	**32.3**	33.6
Impairment provisions	**(91.9)**	(81.8)	**-**	-
	306.4	335.4	**32.3**	33.6

Of the Group fair value adjustments, £20.9m (2019/20: £25.8m) relate to loans secured on commercial property and £0.9m (2019/20 £1.6m) relate to loans secured on residential property. Of the Society fair value adjustments, £1.0m (2019/20: £1.6m) relates to loans secured on commercial property and £0.9m (2019/20: £1.6m) relates to loans secured on residential property.

(i) Credit quality

The internal credit risk grading approach for the closed commercial loan book does not use scorecards or probability of default calculations. Instead loans are individually assessed against a series of prescriptive and judgmental criteria, by subject matter experts following a clearly defined methodology, to arrive at a risk grade. The distribution of the portfolio by grade and IFRS 9 stage at 31 March is set out in the table below.

At 31 March 2021

	Group				Society
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**
Strong	43.9	-	-	**43.9**	32.3
Good	13.7	-	-	**13.7**	-
Satisfactory	-	10.1	-	**10.1**	-
Weak	-	72.7	-	**72.7**	-
Default:					
In LPA receivership	-	-	257.9	**257.9**	-
	57.6	**82.8**	**257.9**	**398.3**	**32.3**

At 31 March 2020

	Group				Society
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m
Strong	42.4	-	-	42.4	33.6
Good	17.0	-	-	17.0	-
Satisfactory	0.1	24.1	-	24.2	-
Weak	-	79.5	-	79.5	-
Default:					
In LPA receivership	-	-	254.1	254.1	-
	59.5	103.6	254.1	417.2	33.6

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

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Not past due	**301.4**	318.5	**32.3**	33.6
Past due up to 3 months	**0.3**	3.3	**-**	-
Past due 3 to 6 months	**3.1**	-	**-**	-
Past due 6 to 12 months	**4.8**	15.2	**-**	-
Past due over 12 months	**88.7**	80.2	**-**	-
	398.3	417.2	**32.3**	33.6

33. Credit risk (continued)

(ii) Expected credit losses

The table below illustrates the IFRS 9 staging distribution of commercial loans and advances to customers and related expected credit loss provisions at the year end. Stage 2 loans have been further analysed to show those which are more than 30 days past due, the IFRS 9 backstop for identifying a significant increase in credit risk (SICR), and those which meet other SICR criteria as detailed in note 1 to the accounts.

At 31 March 2021

	Group			Society		
	Gross exposure £m	Expected credit loss provision £m	Provision coverage %	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans						
Stage 1	**57.6**	**-**	**0.00%**	**32.3**	**-**	**0.00%**
Stage 2						
> 30 days past due	**2.1**	**0.1**	**4.76%**	**-**	**-**	**-**
Other SICR indicators	**80.7**	**8.3**	**10.29%**	**-**	**-**	**-**
Stage 3	**257.9**	**80.7**	**31.29%**	**-**	**-**	**-**
Provision overlays	**-**	**2.8**	**-**	**-**	**-**	**-**
	398.3	**91.9**	**23.07%**	**32.3**	**-**	**0.00%**

At 31 March 2020

	Group			Society		
	Gross exposure £m	Expected credit loss provision £m	Provision coverage %	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans						
Stage 1	59.5	-	0.00%	33.6	-	0.00%
Stage 2						
> 30 days past due	-	-	-	-	-	-
Other SICR indicators	103.6	9.3	8.98%	-	-	-
Stage 3	254.1	72.5	28.53%	-	-	-
	417.2	81.8	19.61%	33.6	-	0.00%

For the purposes of the disclosure above, gross exposures and expected credit loss provisions are rounded to the nearest £0.1m whereas the provision coverage percentages are based on the underlying data prior to rounding.

The tables below analyse the movement in gross commercial exposures and the related expected credit loss allowances at 31 March:

	Group				Society
Gross exposure	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**
At 1 April 2020	59.5	103.6	254.1	**417.2**	33.6
Transfers due to increased credit risk:					
From stage 1 to stage 2	-	-	-	**-**	-
From stage 1 to stage 3	(0.2)	-	0.2	**-**	-
From stage 2 to stage 3	-	(13.4)	13.4	**-**	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	1.6	(1.6)	-	**-**	-
From stage 3 to stage 2	-	-	-	**-**	-
Net redemptions, repayments and fair value adjustments for hedged risk	(3.3)	(5.8)	(7.0)	**(16.1)**	(1.2)
Amounts written off	-	-	(2.8)	**(2.8)**	-
Other movements	-	-	-	**-**	(0.1)
At 31 March 2021	57.6	82.8	257.9	**398.3**	32.3

	Group				Society
Gross exposure	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m
At 1 April 2019	74.1	133.1	237.1	444.3	34.3
Transfers due to increased credit risk:					
From stage 1 to stage 2	(11.0)	11.0	-	-	-
From stage 2 to stage 3	-	(33.8)	33.8	-	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	3.6	(3.6)	-	-	-
From stage 3 to stage 2	-	-	-	-	-
Net redemptions, repayments and fair value adjustments for hedged risk	(7.2)	(3.1)	(10.1)	(20.4)	(0.8)
Amounts written off	-	-	(7.8)	(7.8)	-
Other movements	-	-	1.1	1.1	0.1
At 31 March 2020	59.5	103.6	254.1	417.2	33.6

33. Credit risk (continued)

	Group				Society
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**
Expected credit loss allowance					
At 1 April 2020	-	9.3	72.5	**81.8**	-
Transfers due to increased credit risk:					
From stage 1 to stage 2	-	-	-	**-**	-
From stage 2 to stage 3	-	(1.4)	1.8	**0.4**	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	-	-	-	**-**	-
From stage 3 to stage 2	-	-	-	**-**	-
Remeasurement of expected credit losses with no stage transfer	-	0.5	9.2	**9.7**	-
Redemptions	-	-	-	**-**	-
Amounts written off	-	-	(2.8)	**(2.8)**	-
Movement in provision overlays	-	-	2.8	**2.8**	-
At 31 March 2021	-	8.4	83.5	**91.9**	-

	Group				Society
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m
Expected credit loss allowance					
At 1 April 2019	0.3	8.8	61.6	70.7	-
Transfers due to increased credit risk:					
From stage 1 to stage 2	(0.3)	0.4	-	0.1	-
From stage 2 to stage 3	-	(2.7)	2.6	(0.1)	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	-	-	-	-	-
From stage 3 to stage 2	-	-	-	-	-
Remeasurement of expected credit losses with no stage transfer	-	2.8	16.9	19.7	-
Redemptions	-	-	(0.8)	(0.8)	-
Amounts written off	-	-	(7.8)	(7.8)	-
At 31 March 2020	-	9.3	72.5	81.8	-

(iii) Industry analysis of commercial loans

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
Healthcare	**60.6**	63.8	**-**	-
Leisure	**54.3**	56.4	**-**	-
Industrial and warehouse	**10.1**	10.8	**2.7**	3.0
Office	**25.1**	24.6	**4.5**	4.0
Retail	**232.5**	243.4	**10.2**	9.7
Residential	**15.7**	18.1	**14.9**	16.9
Other	**-**	0.1	**-**	-
	398.3	417.2	**32.3**	33.6

(iv) Geographical analysis

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

	Group 2021 £m	Group 2020 £m	Society 2021 £m	Society 2020 £m
East Anglia	**20.0**	19.5	**4.5**	3.2
East Midlands	**26.6**	27.5	**0.9**	1.0
Greater London	**35.2**	38.2	**18.0**	20.3
North	**36.2**	38.2	**-**	-
North West	**135.0**	137.1	**3.6**	3.0
Scotland	**0.7**	0.9	**0.4**	0.5
South East	**55.8**	57.8	**0.9**	1.0
South West	**8.5**	12.3	**0.1**	0.1
Wales	**4.0**	4.1	**0.6**	0.7
West Midlands	**36.9**	40.1	**-**	-
Yorkshire	**39.4**	41.5	**3.3**	3.8
	398.3	417.2	**32.3**	33.6

33. Credit risk (continued)

(v) Collateral

The Group's average indexed loan to value at the year end date is 111.9% (2019/20: 95.0%), calculated as a simple average across all commercial loans.

The following table indicates collateral held against commercial loans and advances to customers by IFRS 9 stage at 31 March:

Group **Value of collateral held**	**Indexed 2021 £m**	**Unindexed 2021 £m**	Indexed 2020 £m	Unindexed 2020 £m
Stage 1	**189.7**	**187.0**	181.0	171.5
Stage 2	**56.2**	**64.4**	92.3	88.5
Stage 3	**134.7**	**163.5**	145.4	158.0
	380.6	**414.9**	418.7	418.0

Society **Value of collateral held**	**Indexed 2021 £m**	**Unindexed 2021 £m**	Indexed 2020 £m	Unindexed 2020 £m
Stage 1	**123.9**	**125.1**	115.6	116.7

The collateral held consists of properties, land or other guarantees or cash included within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

(vi) Forbearance

Certain forbearance activities are applied on a small number of commercial mortgages. Loans that have been restructured (generally via a term extension) and would otherwise have been past due are classified as renegotiated. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans on the basis of new contractual terms following renegotiation.

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

Group	**Arrangements 2021 £m**	**Capitalisation 2021 £m**	**Term extensions 2021 £m**	**Total 2021 £m**
Not past due	14.7	10.9	1.1	**26.7**
Past due 6 to 12 months	4.8	-	-	**4.8**
Past due over 12 months	3.8	-	-	**3.8**
	23.3	**10.9**	**1.1**	**35.3**

Group	Arrangements 2020 £m	Capitalisation 2020 £m	Term extensions 2020 £m	Total 2020 £m
Not past due	15.7	11.2	-	26.9
Past due 6 to 12 months	5.0	-	-	5.0
Past due over 12 months	3.8	-	-	3.8
	24.5	11.2	-	35.7

(d) Loans and advances to credit institutions and investment securities

The Group holds treasury investments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is monitored, managed and controlled closely by the Group.

At 31 March 2021, the Group and Society's loans and advances to credit institutions and investment securities held at amortised cost or FVOCI were all categorised as stage 1 and the associated ECLs were negligible. At the reporting date, 100% (2019/20: 100%) of the Group's treasury assets were invested in or deposited with counterparties rated single A or better or classified as a Global Systemically Important Counterparty (GSIC).

The tables below show the relative concentrations of the Group's treasury investment portfolio, all of which are denominated in sterling:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
Concentration by credit grading				
AAA	**341.6**	202.9	**298.9**	202.9
AA+ to AA-	**302.9**	330.2	**302.9**	328.4
A+ to A-	**54.9**	138.3	**54.9**	95.1
Other	**0.9**	1.0	**542.9**	580.4
	700.3	672.4	**1,199.6**	1,206.8
Concentration by sector				
Financial institutions	**107.3**	123.6	**64.6**	78.6
Asset backed securities	**189.4**	229.8	**731.4**	809.2
Supranational institutions	**87.1**	55.5	**87.1**	55.5
Sovereign	**316.5**	263.5	**316.5**	263.5
	700.3	672.4	**1,199.6**	1,206.8
Concentration by region				
UK	**596.5**	598.1	**1,095.8**	1,148.4
Europe (excluding UK)	**0.6**	2.5	**0.6**	2.5
North America	**16.1**	16.3	**16.1**	0.4
Supranational	**87.1**	55.5	**87.1**	55.5
	700.3	672.4	**1,199.6**	1,206.8

(e) Intercompany loans

An ECL provision of £189.1m (£2019/20: £159.3m) is held against intercompany loans of £958.6m (2019/20: £1,010.8m) to West Bromwich Commercial Limited and West Bromwich Mortgage Company where there is currently a shortfall in net assets; these loans are classified as Stage 2. The balance of £123.1m (2019/20: £125.4m) of intercompany investments and loans is classified as stage 1 with no provision against it (2020: £nil).

34. Market risk

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

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

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

The Group's use of derivative financial instruments to manage interest rate risk is explained in note 12 to the accounts.

Interest rate risk

The Group's exposure to interest rate risk is reported against target operating ranges set by ALCo, which themselves fall within Board Policy limits. The effect upon the Group's current and forecast net market value of assets and liabilities is determined for parallel yield curve shifts in the range +2% to -2%, subject to a defined floor, and for a variety of stressed non-parallel yield curve shifts, including unfloored negative rates. The impact upon net interest income is also assessed for rate movements using parallel shifts in the range +1% to -1%, subject to a specified assumed floor for Bank Rate (currently -0.5%), 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, SONIA, 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 defined risk appetites for 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, CCDS and PIBS are allocated over a range of time buckets against treasury and other assets in accordance with targets set by ALCo. The resulting 'reverse cumulative gap report' allows the income and market value sensitivity of a one basis point movement in interest rates upon the whole balance sheet to be calculated.

The levels of Group pre-tax interest rate risk exposures to applicable parallel shifts, subject to the aforementioned floors, through the reporting period were as follows:

	At 31 March 2021 £m	Average 2021 £m	High 2021 £m	Low 2021 £m
Market value	**(9.4)**	(3.8)	(9.9)	(0.2)
Net interest income	**(8.0)**	(5.0)	(8.9)	(0.1)

The Group's gap and basis mismatch positions are reported quarterly to the Prudential Regulation Authority (PRA). The Society also employs Economic Value of Equity measures in line with European Banking Authority (EBA) requirements. The Society's internal limits framework ensures that Interest Rate Risk in the Banking Book is controlled at much lower exposures than would trigger a notification to the PRA under the established EBA reporting triggers.

Capital Risk

The Group manages regulatory capital which substantially consists of Members Interests and Equity, as set out in the Capital Risk section of the Risk Management report on page 40. The Group has met the external regulatory capital requirements during the year.

35. Liquidity risk

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

The contractual maturity of the mortgages is typically up to 30 years although loans are often repaid early due to borrowers moving house or remortgaging. In contrast, the majority of members' savings are available on demand or at short notice. It is this inherent mismatch between the maturity profile of mortgage lending and the easy accessibility of savings that creates liquidity risk.

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

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

The Group's liquidity risk is managed as follows:

- The Board has delegated authority for the management of liquidity risk to the Assets & Liabilities Committee (ALCo) within risk tolerances set out in the Treasury and Financial Risk Management Policy. ALCo meets monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC). LMC meets regularly (typically weekly) to agree, based upon detailed customer behavioural analysis, the amount of funding required to maintain the adequacy of Group liquidity over horizons of up to three months. LMC plans cash requirements at a higher level over an extended rolling 12 month plan period;
- LMC also considers a series of daily, weekly and monthly stress tests which are designed to ensure that the Group maintains sufficient liquidity to meet its cash flow needs under any of a number of adverse scenarios. These scenarios simulate both Group specific, general market and combined events including severe savings outflows and the unavailability of wholesale funding; and
- Under the Prudential Regulation Authority's liquidity regime, the Group holds sufficient high quality liquid assets, such as government securities, supranational bonds, covered bonds and cash deposited with the Bank of England, to ensure that it can meet its liabilities over a 30 day period under stressed conditions. This is known as its Liquidity Coverage Ratio (LCR). The Group holds high quality liquidity above that required by the LCR in accordance with its own day-to-day assessment of liquidity adequacy. This includes stress testing over a number of horizons, including survival days' assessment out to 90 days.

The Overall Liquidity Adequacy Rule (OLAR) states that a regulated firm must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There are three measures that the Group considers key to meeting the OLAR:

- Liquidity ratios - the amount of liquidity necessary to meet its LCR and to maintain overall liquidity adequacy as determined by the society's Individual Liquidity Adequacy Assessment Process (ILAAP) is assessed daily;
- Liquidity stress tests - adequacy of Group liquidity under a number of different stress scenarios is modelled and maintained within the Board's liquidity risk tolerance; and
- Refinancing gaps - the level of wholesale and combined retail/wholesale funding permitted to mature over given time periods is subject to Board approved limits.

Further details of liquidity management are contained within the Risk Management Report on pages 36 to 43.

35. Liquidity risk (continued)

The table below analyses the Group's assets and liabilities across maturity periods that reflect the residual maturity from the year end date to the contractual maturity date. The Group's liquidity management processes consider the actual repayment profiles of financial assets and liabilities which are likely to be significantly different to that shown in the analysis. Gross loan commitments are expected to mature within 3 months.

At 31 March 2021

Group	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	304.7	-	-	-	-	11.8	**316.5**
Loans and advances to credit institutions	52.3	55.0	-	-	-	-	**107.3**
Investment securities	-	4.0	63.8	139.5	69.2	-	**276.5**
Derivative financial instruments	-	1.4	0.6	4.1	0.4	-	**6.5**
Loans and advances to customers	-	258.1	53.6	301.0	4,336.0	(96.4)	**4,852.3**
Total financial assets	**357.0**	**318.5**	**118.0**	**444.6**	**4,405.6**	**(84.6)**	**5,559.1**
Financial liabilities							
Shares	3,263.8	296.5	320.9	352.9	-	-	**4,234.1**
Amounts due to credit institutions	-	54.7	197.1	500.0	-	-	**751.8**
Amounts due to other customers	11.4	39.8	34.6	5.1	-	-	**90.9**
Derivative financial instruments	-	1.5	3.5	17.4	18.1	-	**40.5**
Debt securities in issue	-	-	-	217.9	-	-	**217.9**
Subordinated liabilities	-	-	-	-	22.8	-	**22.8**
Total financial liabilities	**3,275.2**	**392.5**	**556.1**	**1,093.3**	**40.9**	**-**	**5,358.0**

At 31 March 2020

Group	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	252.2	-	-	-	-	11.3	263.5
Loans and advances to credit institutions	63.4	60.2	-	-	-	-	123.6
Investment securities	-	35.1	-	169.9	80.3	-	285.3
Derivative financial instruments	-	-	-	4.5	-	-	4.5
Loans and advances to customers	-	248.5	35.4	315.2	4,163.7	(71.2)	4,691.6
Total financial assets	315.6	343.8	35.4	489.6	4,244.0	(59.9)	5,368.5
Financial liabilities							
Shares	3,228.9	127.5	272.6	217.1	-	-	3,846.1
Amounts due to credit institutions	-	142.9	479.0	261.9	-	-	883.8
Amounts due to other customers	3.4	41.2	43.5	2.0	4.5	-	94.6
Derivative financial instruments	0.9	0.2	1.3	28.2	23.6	-	54.2
Debt securities in issue	-	-	1.0	265.3	-	-	266.3
Subordinated liabilities	-	-	-	-	22.8	-	22.8
Total financial liabilities	3,233.2	311.8	797.4	774.5	50.9	-	5,167.8

At 31 March 2021

Society	**Repayable on demand £m**	**Less than 3 months £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**No specific maturity £m**	**Total £m**
Financial assets							
Cash and balances with the Bank of England	304.7	-	-	-	-	11.8	**316.5**
Loans and advances to credit institutions	9.6	55.0	-	-	-	-	**64.6**
Investment securities	-	4.0	63.8	139.5	578.1	-	**785.4**
Derivative financial instruments	-	1.4	0.6	4.1	0.4	-	**6.5**
Loans and advances to customers	-	41.1	15.8	103.0	3,223.7	9.7	**3,393.3**
Investments: loans in subsidiary undertakings	-	-	-	-	-	1,081.7	**1,081.7**
Total financial assets	**314.3**	**101.5**	**80.2**	**246.6**	**3,802.2**	**1,103.2**	**5,648.0**
Financial liabilities							
Shares	3,263.8	296.5	320.9	352.9	-	-	**4,234.1**
Amounts due to credit institutions	-	54.8	197.1	500.2	-	-	**752.1**
Amounts due to other customers	3.4	39.9	33.8	1.0	201.5	-	**279.6**
Derivative financial instruments	-	0.2	3.5	17.3	18.1	-	**39.1**
Debt securities in issue	-	-	-	-	-	-	**-**
Subordinated liabilities	-	-	-	-	22.8	-	**22.8**
Total financial liabilities	**3,267.2**	**391.4**	**555.3**	**871.4**	**242.4**	**-**	**5,327.7**

At 31 March 2020*

Society	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	252.2	-	-	-	-	11.3	263.5
Loans and advances to credit institutions	18.4	60.2	-	-	-	-	78.6
Investment securities	-	35.1	-	169.8	626.6	-	831.5
Derivative financial instruments	-	-	-	4.5	-	-	4.5
Loans and advances to customers	-	6.4	12.5	136.7	2,983.5	16.8	3,155.9
Investments: loans in subsidiary undertakings	-	-	-	-	-	1,136.2	1,136.2
Total financial assets	270.6	101.7	12.5	311.0	3,610.1	1,164.3	5,470.2
Financial liabilities							
Shares	3,228.9	127.5	272.6	217.1	-	-	3,846.1
Amounts due to credit institutions	-	142.9	479.0	236.9	-	-	858.8
Amounts due to other customers	3.4	33.6	43.2	1.4	273.1	-	354.7
Derivative financial instruments	0.9	0.2	1.3	25.7	23.5	-	51.6
Debt securities in issue	-	-	1.0	-	-	-	1.0
Subordinated liabilities	-	-	-	-	22.8	-	22.8
Total financial liabilities	3,233.2	304.2	797.1	481.1	319.4	-	5,135.0

*Investment securities and deemed loans (included within amounts due to other customers) have been restated as explained in Note 40.

35. Liquidity risk (continued)

The significant development of liquidity stress testing and forecast models has continued throughout 2021 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	2021 £m	2021 %	2020 £m	2020 %
Cash in hand and balances with the Bank of England	316.5	45.2	263.5	39.1
Cash with banks and building societies	107.3	15.4	123.6	18.4
Fixed rate bonds	7.8	1.1	-	-
Floating rate notes	79.4	11.3	55.5	8.3
Covered bonds	120.1	17.1	149.4	22.2
Residential mortgage backed securities	69.2	9.9	80.4	12.0
Total	**700.3**	**100.0**	672.4	100.0

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

At 31 March 2021

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,567.2	341.6	336.7	-	**4,245.5**
Amounts due to credit institutions and other customers	92.3	237.6	502.0	-	**831.9**
Derivative financial instruments	4.9	11.9	27.2	5.7	**49.7**
Debt securities in issue	0.2	0.8	219.2	-	**220.2**
Subordinated liabilities	-	2.5	9.9	52.3	**64.7**
	3,664.6	**594.4**	**1,095.0**	**58.0**	**5,412.0**

At 31 March 2020

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,233.6	297.2	323.1	-	3,853.9
Amounts due to credit institutions and other customers	178.9	516.1	263.2	-	958.2
Derivative financial instruments	3.4	10.1	35.9	10.4	59.8
Debt securities in issue	0.6	2.4	266.8	-	269.8
Subordinated liabilities	-	2.5	9.9	57.0	69.4
	3,416.5	828.3	898.9	67.4	5,211.1

At 31 March 2021

Society	**Less than 3 months £m**	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Liabilities					
Shares	3,567.2	341.6	336.7	-	**4,245.5**
Amounts due to credit institutions and other customers	92.3	237.6	502.0	-	**831.9**
Derivative financial instruments	4.9	11.9	27.2	5.7	**49.7**
Debt securities in issue	-	-	-	-	**-**
Subordinated liabilities	-	2.5	9.9	52.3	**64.7**
	3,664.4	**593.6**	**875.8**	**58.0**	**5,191.8**

At 31 March 2020

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,233.6	297.2	323.1	-	3,853.9
Amounts due to credit institutions and other customers	178.9	516.1	263.2	-	958.2
Derivative financial instruments	3.1	9.3	34.8	9.6	56.8
Debt securities in issue	-	1.0	-	-	1.0
Subordinated liabilities	-	2.5	9.9	57.0	69.4
	3,415.6	826.1	631.0	66.6	4,939.3

For each material class of financial liability a maturity analysis is provided on pages 146 to 147.

36. Financial commitments

The maturity analysis of lease liabilities is analysed in the table shown below:

	Group 2021 £m	Group 2020 £m	**Society 2021 £m**	Society 2020 £m
a) Leasing commitments				
Less than three months	**0.1**	0.1	**0.1**	0.1
Greater than three months and less than one year	**0.3**	0.3	**0.3**	0.3
Between one and five years	**1.2**	1.5	**1.2**	1.5
After five years	**0.5**	0.9	**0.5**	0.9
	2.1	2.8	**2.1**	2.8

The Society earns rental income on subletting parts of eight of its freehold branches to residential and commercial tenants. The income received from this is negligible and is regarded as rental income.

b) Loan commitments				
Undrawn loan facilities	**252.3**	191.1	**221.4**	175.9
c) Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	**0.4**	0.5	**0.4**	0.5

37. Related party transactions

i) Subsidiary, parent and ultimate controlling party

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

ii) Key management personnel

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

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

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

Group and Society	**No. of key management personnel 2021**	**Amount in respect of key management personnel and their close family members 2021 £000**	No. of key management personnel 2020	Amount in respect of key management personnel and their close family members 2020 £000
Savings balances at 31 March	**6**	**37**	8	126
Interest payable on savings balances	**6**	**1**	8	1

Mortgage loans and savings are available to key management personnel and members of their close family at normal commercial terms. At 31 March 2021, there was 1 mortgage loan outstanding to Directors and their connected persons of £0.2m (31 March 2020: 1 outstanding of £0.7m).

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 £4.5m (2019/20: £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 subsidiary companies

	Interest paid to Society 2021 £m	Interest paid to Society 2020 £m
Insignia Finance Limited	**0.2**	0.3
West Bromwich Commercial Limited	**9.5**	11.6
West Bromwich Homes Limited	**2.9**	2.9
West Bromwich Mortgage Company Limited	**11.3**	16.2
	23.9	31.0

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

	Loans owed by subsidiaries 2021 £m	Loans owed by subsidiaries 2020 £m
Insignia Finance Limited	**5.6**	7.3
West Bromwich Commercial Limited	**366.9**	352.1
West Bromwich Homes Limited	**117.5**	118.1
West Bromwich Mortgage Company Limited	**591.7**	658.7
	1,081.7	1,136.2

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

The loans owed by West Bromwich Commercial Limited are net of impairment provisions of £174.1m (2019/20: £159.3m) and the loans owed by West Bromwich Mortgage Company Limited are net of impairment provisions of £14.9m (2019/20: £nil).

38. Business segments

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

The Group has three main business segments:

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

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

From 2018/19 onwards, the Group commenced responsible buy to let lending to limited companies which is reported within the Retail segment. The segment previously termed 'Commercial' is now reported as 'Commercial real estate'. There were no other changes to reportable segments during current or prior year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Board is measured in a manner consistent with that in the consolidated Income Statement.

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

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

Income Statements for the year ended 31 March 2021

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	104.6	8.0	-	(13.2)	**99.4**
On instruments measured at fair value through profit or loss	(15.2)	-	-	-	**(15.2)**
Total interest receivable and similar income	89.4	8.0	-	(13.2)	**84.2**
Interest expense and similar charges	(26.7)	(10.1)	(3.0)	13.3	**(26.5)**
Net interest receivable/(expense)	**62.7**	**(2.1)**	**(3.0)**	**0.1**	**57.7**
Fees and commissions receivable	2.0	-	-	-	**2.0**
Other operating income	-	-	3.7	-	**3.7**
Fair value gains on financial instruments	2.5	0.9	-	-	**3.4**
Total income	**67.2**	**(1.2)**	**0.7**	**0.1**	**66.8**
Administrative expenses	(38.1)	(0.9)	(0.1)	-	**(39.1)**
Depreciation and amortisation	(8.1)	-	-	-	**(8.1)**
Operating profit/(loss) before revaluation gains, impairment and provisions	**21.0**	**(2.1)**	**0.6**	**0.1**	**19.6**
Gains on investment properties	-	-	4.0	-	**4.0**
Impairment on loans and advances	(4.8)	(14.0)	-	-	**(18.8)**
Provisions for liabilities	(0.1)	-	-	-	**(0.1)**
Profit/(Loss) before tax	**16.1**	**(16.1)**	**4.6**	**0.1**	**4.7**

38. Business segments (continued)

Statements of Financial Position at 31 March 2021

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	**5,771.7**	**315.9**	**145.4**	**(464.5)**	**5,768.5**
Total liabilities	**5,434.3**	**439.0**	**123.4**	**(618.1)**	**5,378.6**
Capital expenditure	**5.2**	**-**	**-**	**-**	**5.2**

Income Statements for the year ended 31 March 2020

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	124.1	10.5	-	(16.0)	118.6
On instruments measured at fair value through profit or loss	(4.4)	(0.1)	-	-	(4.5)
Total interest receivable and similar income	119.7	10.4	-	(16.0)	114.1
Interest expense and similar charges	(54.0)	(13.5)	(2.9)	15.4	(55.0)
Net interest receivable/(expense)	65.7	(3.1)	(2.9)	(0.6)	59.1
Fees and commissions receivable	2.3	-	-	-	2.3
Other operating income	-	-	4.0	-	4.0
Fair value losses on financial instruments	(3.7)	(4.1)	-	(0.7)	(8.5)
Gain on deconsolidation of commercial securitisations	-	5.3	-	-	5.3
Write down of goodwill	(0.5)	-	-	-	(0.5)
Total income	63.8	(1.9)	1.1	(1.3)	61.7
Administrative expenses	(37.5)	(0.4)	(0.3)	-	(38.2)
Depreciation and amortisation	(8.0)	-	-	-	(8.0)
Operating profit/(loss) before revaluation gains, impairment and provisions	18.3	(2.3)	0.8	(1.3)	15.5
Gains on investment properties	-	-	4.2	-	4.2
Impairment on loans and advances	(2.9)	(14.6)	-	-	(17.5)
Provisions for liabilities	(0.5)	(0.2)	-	-	(0.7)
Profit/(Loss) before tax	14.9	(17.1)	5.0	(1.3)	1.5

Statements of Financial Position at 31 March 2020

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	5,539.7	343.6	141.5	(448.0)	5,576.8
Total liabilities	5,208.7	445.2	123.5	(584.4)	5,193.0
Capital expenditure	6.0	-	-	-	6.0

39. Asset encumbrance

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

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

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

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

	Encumbered 2021 £m	**Unencumbered 2021 £m**	Encumbered 2020 £m	Unencumbered 2020 £m
Cash and balances at the Bank of England	**11.8**	**304.7**	18.2	245.3
Loans and advances to credit institutions	**70.7**	**36.6**	-	123.6
Investment securities	**-**	**276.5**	1.1	284.2
Derivative financial instruments	**-**	**6.5**	-	4.5
Loans and advances to customers	**1,203.0**	**3,649.3**	1,494.5	3,197.1
Other assets	**-**	**209.4**	-	208.3
	1,285.5	**4,483.0**	1,513.8	4,063.0

In addition to the above, at 31 March 2021, Group loans and advances to credit institutions included £55.0m (2019/20: £69.6m) of collateral pledged against derivative financial instruments.

40. Prior year restatement

As outlined in the Accounting Policies for Securitisation transactions, the Society has entered into securitisation transactions in which it sold residential mortgages to structured entities. In accordance with IFRS 9 (and previously under 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. The Society retains a proportion of the loan notes issued by the structured entities which can be used as collateral for repurchase or similar transactions. The Society applied the derecognition criteria outlined in IFRS 9 'Financial instruments: Recognition and measurement' to account for securitisation transactions and, as a result, retained recognition of the mortgages subject to securitisation on its Balance Sheet, since the Society retains substantially all of the risks and rewards associated with those assets.

During the year, the Society reconsidered the previous accounting treatment for retained notes between the Society and the securitised entities, determining that they did not best reflect the substance of the Society's economic returns and exposures. Previously, the Society recorded retained loan notes as investment securities and included obligations within the deemed loans to the securitised entities to support repayment of those notes. This approach resulted in the Society recognising both the securitised mortgages and retained notes linked to those mortgages as assets on the Balance Sheet, and liabilities payable to itself on those notes within the deemed loans. The Society has now restated the financial statements to eliminate the retained notes from the Balance Sheet and reduce the deemed loan carrying values (removing the internal liabilities).

40. Prior year restatement (continued)

The impact of the restatements on the previously published Balance Sheets as at 31 March 2020 and 1 April 2019 is presented below

	Society			Society		
	As reported 31 March 2020 £m	Internally held SPV own notes £m	Restated 31 March 2020 £m	As reported* 1 April 2019 £m	Internally held SPV own notes £m	Restated 1 April 2019 £m
Assets						
Cash and balances with the Bank of England	263.5	-	263.5	182.5	-	182.5
Loans and advances to credit institutions	78.6	-	78.6	59.0	-	59.0
Investment securities	864.7	(33.2)	831.5	934.2	(33.2)	901.0
Derivative financial instruments	4.5	-	4.5	5.9	-	5.9
Loans and advances to customers	3,155.9	-	3,155.9	3,095.4	-	3,095.4
Current tax assets	0.4	-	0.4	-	-	-
Deferred tax assets	13.0	-	13.0	10.3	-	10.3
Trade and other receivables	3.7	-	3.7	3.6	-	3.6
Investments	1,136.3	-	1,136.3	1,215.8	-	1,215.8
Intangible assets	16.3	-	16.3	15.9	-	15.9
Property, plant and equipment	28.2	-	28.2	28.4	-	28.4
Total assets	5,565.1	(33.2)	5,531.9	5,551.0	(33.2)	5,517.8
Liabilities						
Shares	3,846.1	-	3,846.1	3,991.2	-	3,991.2
Amounts due to credit institutions	858.8	-	858.8	667.3	-	667.3
Amounts due to other customers	387.9	(33.2)	354.7	415.6	(33.2)	382.4
Derivative financial instruments	51.6	-	51.6	35.5	-	35.5
Debt securities in issue	1.0	-	1.0	1.0	-	1.0
Current tax liabilities	-	-	-	0.9	-	0.9
Deferred tax liabilities	1.7	-	1.7	1.6	-	1.6
Trade and other payables	14.1	-	14.1	10.5	-	10.5
Provisions for liabilities	0.5	-	0.5	0.9	-	0.9
Retirement benefit obligations	2.7	-	2.7	4.9	-	4.9
Subordinated liabilities	22.8	-	22.8	22.8	-	22.8
Total liabilities	5,187.2	(33.2)	5,154.0	5,152.2	(33.2)	5,119.0
Members' interests and equity						
Core capital deferred shares	127.0	-	127.0	127.0	-	127.0
Subscribed capital	8.9	-	8.9	8.9	-	8.9
General reserves	240.6	-	240.6	259.7	-	259.7
Revaluation reserve	3.3	-	3.3	3.3	-	3.3
Fair value reserve	(1.9)	-	(1.9)	(0.1)	-	(0.1)
Total members' interests and equity	377.9	-	377.9	398.8	-	398.8
Total members' interests, equity and liabilities	5,565.1	(33.2)	5,531.9	5,551.0	(33.2)	5,517.8

*2019 loans and advances to customers, current tax liabilities and general reserves were restated as per the 2020 Report and Accounts.

Country-by-Country Reporting

Capital Requirements (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 United Kingdom (UK). As a mutual organisation, the Society is owned and run for the benefit of its members with the safety of members' funds being paramount. In providing a safe haven for members' funds, the Society can fulfil its primary purpose of enabling home ownership through the provision of mortgages.

These consolidated financial statements of the West Bromwich Building Society Group (the Group) include the audited results of the Society, its subsidiary undertakings and a number of securitisation entities. The consolidated entities, their principal activities and countries of incorporation are detailed in note 15. All of the consolidated entities are incorporated in the UK, with the exception of Hawthorn Finance Limited which is incorporated in Jersey.

Basis of preparation

- The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in note 7.
- Turnover represents Group total income as disclosed in the Group Income Statement. Total income comprises net interest, fees and commissions receivable and other operating income, together with fair value gains/losses and net realised profits/losses on financial instruments.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Income Statement.
- Corporation tax receipts/payments represent the amount of tax received/paid during the year, as disclosed in the Group Cash Flow Statement.
- Public subsidies received represent direct support by the government and exclude any central bank operations that are designed for financial stability purposes or operations that aim to facilitate the functioning of the monetary policy transmission mechanism.

	2021	2020
Average number of Group employees, all of which employed in the UK	**675**	677
Arising in the UK:	**£m**	£m
Group total income	**66.8**	61.7
Group profit before tax	**4.7**	1.5
Group corporation tax payments	**-**	1.1
Public subsidies received by the Group	**-**	-

Hawthorn Finance Limited did not transact with entities outside the Group and had no employees (2019/20: nil).

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

Report on the audit of the country-by-country information

Opinion

In our opinion, West Bromwich Building Society's country-by-country information for the year ended 31 March 2021 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 March 2021 in the Country-by-Country Reporting.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Society in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the schedule of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

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

- Review and challenge of key assumptions used by the directors in their determination of the going concern of the Group and Society;
- Review of key regulatory returns in relation to liquidity and capital and consideration of the stress testing performed;
- Consideration as to whether our audit work had identified events or conditions which may give rise to uncertainty as to the Group's future ability to trade;
- Review of legal and regulatory correspondence to ensure that no compliance issues which may impact the going concern of the Group had not been identified; and
- Considered the impact of Covid-19 on the business, including key subsidiaries, and whether any further risks to going concern have arisen as a result.

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

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

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

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

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation statement in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

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

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

Based on our understanding of the Society/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations including, but not limited to, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as the Building Societies Act 1986 and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to reduce expenditure and increase income and inappropriate management bias in accounting estimates . Audit procedures performed included:

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

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

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Society's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this audit is Daniel Brydon.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
27 May 2021

Annual Business Statement

1. Statutory percentages

	2021 %	Statutory limit %
Lending limit	**7.1**	25.0
Funding limit	**16.6**	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

	2021 %	2020 %
As a percentage of shares and borrowings:		
Gross capital	**7.79**	7.99
Free capital	**4.32**	4.38
Liquid assets	**13.23**	13.21
As a percentage of mean total assets:		
Profit for the financial year	**0.09**	0.03
Management expenses	**0.83**	0.83

The above percentages have been prepared from the Group's accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, in each case including accrued interest.
- 'Gross capital' represents the aggregate of general reserves, revaluation reserve, fair value reserve, core capital deferred shares, subscribed capital and subordinated liabilities.
- 'Free capital' represents the aggregate of gross capital and collective impairment provisions for losses on loans and advances less intangible assets, investment properties and property, plant and equipment.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash and balances with the Bank of England, loans and advances to credit institutions and investment securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

Information relating to Directors' and Officers' other directorships and interests at 31 March 2021

Name, qualification and age	Role	Date of appointment	Other directorships and interests
Julie Hopes MBA, ACIB Age 53	Non-Executive Director	1 April 2016	Saga Personal Finance Limited SAGA Services Limited SAGA Plc
John Maltby Age 59	Chair	1 January 2021	Allica Bank Ltd Simplyhealth Access Simplyhealth Group Limited Nordea Bank
Victoria Mitchell LLB (Hons) Age 56	Non-Executive Director	1 April 2018	N Brown Group Plc Lookers Plc Lookers Motor Group Ltd
Mark Preston BA (Hons), ACIB Age 61	Non-Executive Director	18 May 2011	Kensington Holdco Limited Kensington Mortgage Company Limited
Lynne Shamwana BA FCA Age 58	Non-Executive Director	1 February 2019	Southbank Centre Enterprises Limited Southbank Centre Limited 61 Queens Gardens (Freehold) Ltd Overs Farm Residents Company Ltd
David Thomas MSc, ACIB, FIB (Ireland) Age 59	Non-Executive Director	1 August 2020	T D Bank Europe Limited
Ashraf Piranie FCCA, MBA Age 57	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 56	Chief Executive	5 May 2009	West Bromwich Commercial Limited West Bromwich Homes Limited West Bromwich Mortgage Company Limited CL Mortgages Limited Insignia Finance Ltd White Label Lending 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 58 to 67.

Documents may be served on any of the above named Directors at the following address: Addleshaw Goddard, 3 Sovereign Square, Sovereign Street, Leeds, LS1 4ER.

Senior management	Role	Group directorships
Andrea Hackett	Divisional Director, Operations	
Manjit Hayre	Chief Risk Officer	
Greg Johnson ACIB	Divisional Director, IT Service and Solutions	
Alex Pawley	Divisional Director, Treasury & Finance	White Label Lending Limited Insignia Finance Limited West Bromwich Mortgage Company Limited
John McErlean MIIA, FIIA	Divisional Director, Internal Audit	
Neil Noakes	Group Secretary	Insignia Finance Limited WBBS (SRS) Limited West Bromwich Homes Limited White Label Lending Limited
Sophie Leek BSc (Hons), FCCA, ACG	Divisional Director, Human Resources	
James Wright BSc, ACIB, CIM Dip	Divisional Director, Sales & Marketing	

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears – Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is unpaid or overdue. The value of the arrears is the value of the payments that have been missed.

Asset backed securities (ABS) – Securities that represent an interest in an underlying pool of referenced assets. Typically these assets are pools of residential or commercial mortgages.

Basel III – The Basel Committee on Banking Supervision's framework for 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 property assets which can include office buildings, industrial property, hotels, medical centres, shopping centres, farm land, buy to let and housing association properties.

Commercial mortgage backed securities (CMBS) – Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Common Equity Tier 1 (CET 1) capital – CET 1 capital comprises internally generated capital from general reserves and other reserves less intangible assets, goodwill and other regulatory adjustments.

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

Contractual maturity – The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Core Capital Deferred Shares (CCDS) – A form of Common Equity Tier 1 (CET 1) capital issued by building societies.

Credit risk – The risk that a customer or counterparty is unable to honour their obligations as they fall due.

Debt securities in issue – Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit and non-recourse finance.

Derivative financial instruments – A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value depends on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate risk.

Effective interest method – The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid or received between parties to the contract that are considered integral.

Encumbered assets – Assets held on the Statement of Financial Position which have been used as security for funding or otherwise pledged.

Expected credit loss (ECL) - A term used in the calculation of impairment provisions under accounting standard IFRS 9 'Financial Instruments'. The ECL is the present value of all cash shortfalls over the expected life of a financial instrument.

Exposure at default (EAD) – An estimate of the outstanding balance on a financial asset at the time of default.

Fair value – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value through other comprehensive income (FVOCI) assets – Financial assets held at fair value in the Statement of Financial Position with changes in fair value being recognised through other comprehensive income.

Fair value through profit or loss (FVTPL) assets – Financial assets held at fair value in the Statement of Financial Position with changes in fair value being recognised through the Income Statement.

Financial Conduct Authority (FCA) – The conduct regulator for financial services firms in the UK, with objectives to protect consumers and financial markets and to promote competition.

Financial Services Compensation Scheme (FSCS) – The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every deposit-taking firm authorised by the FCA and PRA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.

Forbearance – Support offered to borrowers experiencing genuine financial hardship to enable them to remain in their homes, where this action is not expected to increase the level of debt in the long term.

Free capital – Gross capital less intangible assets, investment properties and property, plant and equipment. In 2017/18, free capital was adjusted for collective mortgage impairment provisions which are no longer applicable under IFRS 9.

Funding limit – Measures the proportion of shares and borrowings not in the form of shares held by individuals excluding non-recourse finance. The calculation of the funding limit is explained in the Annual Business Statement.

General Data Protection Regulation (GDPR) – a legal framework that sets guidelines for the collection and processing of personal information from individuals who live in the EU.

Goodwill – Goodwill arises on the acquisition of subsidiary undertakings, joint ventures, associates or businesses and represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition.

Gross capital – The aggregate of reserves, subscribed capital, subordinated liabilities and core capital deferred shares.

House Price Index – this is a measure of the housing price change, in percentage terms, from a specific start date.

Interbank Offered Rate (IBOR) – a benchmark interest rate at which banks lend to and borrow from one another in interbank markets.

Impaired loans – Under IFRS 9, impaired loans are those assessed as stage 3 (default). In previous years, under IAS 39, impaired loans were defined as loans where there was evidence to suggest that the Group would not receive all of the contractual cash flows or there was an expectation that the cash flows would be received at a later date than when they were contractually due.

Individual Liquidity Adequacy Assessment (ILAA) – The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.

Individually/collectively assessed – Prior to IFRS 9 adoption on 1 April 2018 the Group assessed, at each reporting date, whether or not there was objective evidence that individual financial assets were impaired. If no objective evidence of impairment existed for an individually assessed financial asset, it was included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. A collective provision was made against a group of financial assets where there was evidence that credit losses had been incurred, but not individually identified, at the reporting date.

Interest rate risk – Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Internal Capital Adequacy Assessment Process (ICAAP) – The Group's own assessment, as part of regulatory requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.

Internal Liquidity Adequacy Assessment Process (ILAAP) – The Group's own assessment of the controls required to mitigate liquidity risk, including the minimum volume and quality of liquidity to be held in respect of the risks it faces under a variety of stress scenarios.

International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol – a protocol created to address the expected cessation of LIBOR and other IBORs. It enable parties to Protocol Covered Documents to amend the terms of each such Protocol Covered Document.

Investment securities – Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings.

Law of Property Act (LPA) Receiver – a receiver appointed to manage a property, held as security for a mortgage, where the contractual terms of the mortgage have not been met.

Lending limit – Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement.

Leverage ratio – Tier 1 capital as a percentage of total exposures which include on and off balance sheet assets after netting derivatives.

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

Liquidity coverage ratio (LCR) – A 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 (LTV) – A ratio which expresses the balance of a mortgage as a percentage of the value of the property on which it is secured. The Group calculates residential mortgage LTV on an indexed basis. The value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI).

Loans past due/past due loans – Loans on which payments are overdue including those on which partial payments are being made.

London Inter-Bank Offered Rate (LIBOR) – a benchmark interest rate, expected to cease in 2021, at which a selection of banks on the London money market are prepared to lend to one another.

Loss given default (LGD) – The difference between exposure at default (EAD) and the net amount expected to be recovered on a defaulted loan, expressed as a percentage of EAD.

Management expenses – Management expenses represent administrative expenses plus depreciation and amortisation. The management expenses ratio is calculated as management expenses expressed as a percentage of mean total assets.

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

Mean total assets – Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Medium term notes (MTN) – Securities offered by a company to investors, through a dealer, across a range of maturities.

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

Mortgage backed securities (MBS) – Securities that represent an interest in an underlying pool of mortgage assets.

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

Net interest margin – Net interest income as a percentage of mean total assets.

Net Promoter Score (NPS) – A measure, ranging from -100 to +100, of the likelihood that a customer would recommend a product, service or brand. Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Net stable funding ratio (NSFR) – A ratio calculated as the amount of available stable funding against the amount of required stable funding.

Non-recourse finance – A secured loan (debt) that is secured by a pledge of collateral but for which the borrower is not personally liable. If the borrower defaults, the lender can seize the collateral, but the lender's recovery is limited to the collateral alone.

Operational risk – The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

Other income – The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products, other insurances. It also includes rental income from investment property).

Permanent interest bearing shares (PIBS) – Unsecured, deferred shares that rank behind the claims of all depositors, payables and investing members of the West Brom with the exception of the claims of holders of core capital deferred shares and (in prior years) profit participating deferred shares.

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

Probability of default (PD) – The estimated probability that a borrower will default on their credit obligations.

Probability of Possession given default – The estimated probability that a borrower moves to possession from a default status.

Profit participating deferred shares (PPDS) – A form of unsecured Common Equity Tier 1 capital, fully cancelled following the Liability Management Exercise completed in April 2018.

Prudential Regulation Authority (PRA) - The prudential regulator for UK banks, building societies and insurers, with a general objective to promote the safety and soundness of the firms it regulates.

Renegotiated loans – Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower.

Repo/Reverse repo – Short to medium-term funding agreements which allow a borrower to sell a financial asset, such as asset backed securities (ABS) or government bonds as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential loans – Mortgage lending secured against residential property.

Residential mortgage backed securities (RMBS) – A category of asset backed securities (ABS) that represents interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Risk appetite – The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of its members whilst achieving business objectives.

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

Royal Institution of Chartered Surveyors (RICS) – A professional body promoting and enforcing international standards in the valuation, management and development of land, real estate, construction and infrastructure.

Securitisation – A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of new securities. An entity transfers these assets to a structured entity which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities.

Shares – Money deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings – The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.

Significant increase of credit risk (SICR) – A term used in IFRS 9 where quantitative and/or qualitative factors indicate that the credit risk associated with a non-defaulted loan has increased significantly since it was initially recognised in the Statement of Financial Position. Where a SICR has occurred, the loan is categorised as stage 2 requiring the recognition of lifetime expected credit losses.

Solely payments of principal and interest (SPPI) test – An assessment of whether the contractual terms of a financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding. It is used to determine the appropriate measurement basis for the financial asset under IFRS 9.

Stage 1 – The IFRS 9 category to which financial assets held at amortised cost or FVOCI, which have not experienced a SICR since initial recognition, are assigned. 12-month ECLs are recognised for stage 1 assets and interest income is calculated by applying the effective interest rate to the gross carrying amount.

Stage 2 – The IFRS 9 category to which financial assets held at amortised cost or FVOCI, which have experienced a SICR since initial recognition, are assigned. Lifetime ECLs are recognised for stage 2 assets and interest income is calculated by applying the effective interest rate to the gross carrying amount.

Stage 3 – The IFRS 9 category to which defaulted financial assets held at amortised cost or FVOCI are assigned. Lifetime ECLs are recognised for stage 3 assets and interest income is calculated by applying the effective interest rate to the net (of impairment provision) carrying amount.

Sterling Overnight Index Average (SONIA) – a benchmark interest rate administered by the Bank of England SONIA is a measure of the rate at which interest is paid on sterling short-term wholesale funds in circumstances where credit, liquidity and other risks are minimal.

Subordinated liabilities – A form of unsecured Tier 2 capital. The Society's subordinated notes rank behind all other creditors of the Society, with the exception of holders of CCDS and PIBS.

Term Funding Scheme (TFS) – A scheme launched by the Bank of England, providing term funding to banks and building societies with the aim of promoting UK lending growth. Term Funding Scheme with additional incentives for SMEs (TFSME) is an equivalent scheme launched in March 2020.

Tier 1 capital – An element of regulatory capital and measure of financial strength, comprising Common Equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital is not deemed to be fully loss absorbing and can only be included in capital under the transitional arrangements of CRD IV.

Tier 2 capital – An element of regulatory capital comprising subordinated liabilities, eligible collective impairment allowances (in 2017/18) and certain regulatory deductions made for the purposes of assessing capital adequacy.

Total Capital Requirement (TCR) – The minimum amount of capital the Society is required to hold, set by the PRA and informed by the ICAAP.

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

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