ANNUAL REPORT AND ACCOUNTS

Year Ended 31 March 2009

WEST BROMWICH
BUILDING SOCIETY

Contents

CHAIRMAN'S REVIEW

Results

Market conditions during the last year have been as turbulent as any in the 160 year history of the West Brom. The credit crunch continued through the whole year and financial institutions stopped lending to each other. Last autumn, a recession started with unprecedented speed and severity.

Mainly as a result of the increased cost of funding, the Group's operating profit before provisions, impairment and revaluation reduced from £46.1m to £38.7m.

Against this background, we had higher charges for impairments of loans, a revaluation downwards of our residential property portfolio and a contribution to the Financial Services Compensation Scheme, which protects savers in failed UK based financial institutions.

Provision charges against loans believed to be at risk totalled £65.2m (2008 – £6.4m). Approximately 75% of this charge relates to commercial loans and the balance relates to residential mortgages.

Our property portfolio, which offers many people and their families who cannot afford to get on the property ladder an opportunity to rent high quality houses at affordable rents, has been revalued downwards by £10.9m and now stands at £114.4m. This is around £28m more than the original cost of these properties and we believe that this portfolio will continue to deliver value to the Society's members in the years ahead.

The West Brom has provided some £12.2m in respect of the costs of the Financial Services Compensation Scheme, which includes the anticipated contribution over the next three years.

After charging these provisions, the Group has reported a loss after taxation of £39.3m (2008 – profit £33.1m), a very disappointing result, but the Group has been able to absorb this within its capital position, with solvency at the year end remaining at just over 14%.

Security of our Members' Financial Interests

We put the safety of our members' financial interests above everything else. As a response to the difficult market conditions we have continued to hold a high proportion of our assets in the form of cash and readily realisable assets. At 31 March 2009, our liquid assets totalled £2.0bn. This means that for every £4 of funds deposited with us, we hold around £1 of assets in liquid form.

At 31 March 2009, our residential mortgage loans were financed entirely by funding provided by members. Some £3.2bn of new savings were deposited with us during the year and our net savings balances increased by 18% to £6.5bn. We welcomed

Dr Brian Woods-Scawen CBE
Chairman

nearly 80,000 new members to the Society during the year. This trend has continued since the year end.

We are, therefore, not dependent on wholesale funding for our activities. We have no exposure to US sub-prime mortgages and we have had no requirement to make any provision for impairment in respect of any treasury securities.

Shortly after the year end, in June 2009, we moved to strengthen further our capital position. In the Chief Executive's Review this is described in more detail. However, in short, it means that we have sufficient high quality capital and liquidity for our operational requirements and we operate within the regulatory capital limits set for us by the Financial Services Authority.

Residential Arrears

At the year end, the percentage of loans more than 2.5% in arrears represented 1.0% of total lending. This is below industry norms and has been achieved whilst still maintaining a sympathetic response to borrowers in financial difficulty. Debt counselling is available to members who find themselves having difficulty meeting their repayments, as part of our commitment to help them through periods of temporary financial difficulty. Repossessions are only resorted to when all other avenues have been fully explored. At the year end, we had 191 properties in possession out of a total portfolio of 57,415 properties on which we have lent.

Management and Staff

The Chief Executive, Stephen Karle, resigned in October 2008 and the Group Finance Director, Gary Cowdrill, took early retirement in May 2009. The Group Commercial Director, Roger Smith, left the Society in April 2009 after a management restructure.

We have recruited a strong senior management team led by Robert Sharpe (formerly Chief Executive of the Portman Building Society) and Jonathan Westhoff (formerly Finance Director of the Newcastle Building Society).

A number of our staff left the Society in December following a restructure which, relative to size of operation, has reduced our cost base to amongst the lowest in our industry. I would like to thank them for their contribution to the Society and to wish them well in their future careers.

I would also like to pay tribute to the professionalism and commitment of all our staff as they serve our members.

Sustainable Economic Development

We continue to have a strong commitment to sustainable economic development. We want to create the conditions for future success in a world where the use of resources, technology and innovation will all be important.

We continue to invest in the communities we serve. The West Brom was a leading supporter of the Red Balloon Appeal which helped to fund the new £18m burns unit at Birmingham Children's Hospital. We have contributed £782,000 in cash to community activities in the year and we have encouraged our staff to volunteer for community and charitable activities.

Strategy

The West Brom's core objectives have remained unchanged since it was founded 160 years ago. These are:

- to achieve strong and sustainable financial performance. The results this year are disappointing because of the difficult market conditions but we are determined to restore our profitability in the years ahead;

- to deliver outstanding value and service to our members;

- to create an environment in which our staff can develop their skills and their careers; and

- to invest in the communities we serve.

We will achieve these objectives through our reinvigorated strategy efforts, as covered in detail in the Chief Executive's Review, which follows. This strategy will redirect our efforts to the Black Country and Birmingham where we have strong support and where the West Brom's heritage lies.

The Society's objectives are supported by the principles of openness, trust and ethical behaviour which guide our relationships with our members and with our regulator, the Financial Services Authority.

Our Members

We are conscious that low interest rates are unhelpful to our many members who rely on the income from their savings. We have sought to help members though a range of higher yielding savings products, including special products available for members aged over 65 who are more likely to be reliant on income from savings and pensions.

We are grateful for the continued trust which our members have shown in the West Brom. Your Board believes that being an organisation owned by its members enables us to adopt a long term focus which is a real strength in these times.

Prospects

It is too early to predict with confidence the economic prospects in the UK, and the state of the housing market in particular, through to March 2010. Your Board's plans place an emphasis on security in the current year, including holding higher than usual liquid resources, so that the Society will be well placed to benefit from economic recovery whenever it occurs.

Dr Brian Woods-Scawen CBE
Chairman
12 June 2009

CHIEF EXECUTIVE'S BUSINESS REVIEW

Economic Overview – A Year of Upheaval

The past year has been a period without precedent for the global economy and the financial services industry in particular. Who could have envisaged the failure of the likes of Lehman Brothers in the US and, on this side of the Atlantic, the Government stepping in to rescue several major high street banks?

The impact has been evident on several fronts – a contracting economy, rising unemployment and a sharp slowdown in the housing and mortgage markets, resulting in what now appears to be the deepest recession in over 60 years.

The scale of the economic downturn led to the Bank of England's decision to cut its base rate to a historic 315-year low of 0.5% as part of its attempt to boost spending and so galvanise the economy. It also introduced 'quantitative easing' in an attempt to stimulate confidence among financial institutions.

Robert Sharpe
Chief Executive

The Society's Year in Context – Challenge and Change

The West Brom placed renewed emphasis on the traditional building society model by adopting what can be described as a 'back-to-basics' approach, where the focus is on the core competencies of retail savings and prime residential mortgages. This will, I believe, strengthen our capacity to cope with the challenges presented by the current economic uncertainty.

Looking back on the year, there is no doubt it has posed a series of stern challenges for the Society but, as our favourable performance on retail funds inflow indicates, we retain the confidence of our members as a secure home for their savings.

This year of challenge and change was illustrated by the fact that the Executive Directors and several senior managers, who were in post at the beginning of the financial year, have since left the Society. With a new Executive now in place, the West Brom has a strong and focussed team for dealing with the issues it faces. This has meant a willingness to take incisive and sometimes difficult decisions so that we can deliver an efficient operation which is well positioned to take advantage of market conditions when the economy begins to recover.

Our strategy is shaped by the business imperatives I identified after joining the Society as Chief Executive in October 2008, notably:

- To adopt a new strategy with the aim of moving away from the Society's previous diversification programme towards the more tried and trusted goal of serving our local customers as a regionally based building society with a clear focus on retail savings and prime residential mortgages.

- To recognise and manage the inherent risk within the balance sheet and ensure appropriate provisions and controls are in place.

- To move away from an over-reliance on wholesale funding towards a position where the overwhelming proportion of the Society's funding requirements comes from retail savings deposits.

- To become one of the UK's most cost efficient building societies by removing excess costs from the business, with a planned reduction of at least a quarter of the Society's cost base.

In assessing our progress, I believe we have made significant strides in delivering on each of these imperatives.

Performance – Playing to our Strengths
The benefits of the Society's 'back-to-basics' approach are already apparent in the high level of new savings attracted in the year, resulting in an increase in balances of more than £1bn. This reflects the ability of the Society to offer consistently competitive savings products that feature regularly in Best Buy tables. We believe the reputation of the Society as a safe and reliable home for savers is clearly demonstrated in the 80,000 new members who have invested with the West Brom during the last financial year.

This performance is especially heartening as it has been achieved during a period of intense competition with other providers, who have usually relied on the wholesale markets, now looking to the traditional saver in the wake of the dramatic reduction of funds available through the wholesale markets.

The Society's residential lending activity reflected the mortgage market in general, which has experienced a dramatic decline in reaction to faltering house purchases, falling property prices and the need to tighten lending criteria. The Society's existing mortgage book is performing in line with expectations and arrears remain well below the average as reported by the Council of Mortgage Lenders (CML).

Inevitably the prevailing conditions have had an impact on the Group's profitability. The most significant has been on provisions where, following an extensive appraisal of the Group's lending exposure, primarily in commercial lending, an additional provision charge of £65.2m was made to cover potential losses. The Group has now provided a total of £82.2m in respect of its exposures. In addition, some £12.2m was set aside to cover the Society's contribution to the Financial Services Compensation Scheme (FSCS) and the properties owned through the Society's subsidiary – West Bromwich Homes – were written down by £10.9m. Although we benefited from fair value gains on derivatives totalling £10.6m this year, the cumulative effect of the adverse movements has resulted in an overall post-tax loss of £39.3m.

Funding – Based on Traditional Savers
A constant theme in this year's report is the Society's focus on retail funding, which is a cornerstone of our 'back-to-basics' strategy. The year proved to be very successful with the Society attracting some £3.2bn of inflows.

The Society's performance on the retail side has resulted in a further reduction in its reliance on wholesale markets. Indeed, this effort over the past financial year was largely instrumental in almost halving the Society's use of wholesale funding, which was down from 32% in March 2008 to 19% in March 2009. This trend has continued into the new financial year, reducing to below 14% by the end of May.

Lending – Adjusting to Market Realities
The Society's commitment to what we have defined as a traditional building society model has been embodied in our present concentration on residential lending. This reflects the Society's decision in 2008 to exit from new commercial and buy-to-let lending. The managed run-off of acquired residential and

commercial portfolios has produced a controlled shrinkage of the balance sheet with balances reducing by £356m during the year.

Although there has been an inevitable increase in the absolute level of arrears, given the economic backdrop and rising unemployment, the Society's residential books, both prime and buy-to-let, have arrears markedly below the CML averages.

This attention to the size and quality of the balance sheet is also shown in the purchased residential mortgage portfolios, which the Society acquired in the decade up to 2006. The significant majority of such loans have now redeemed and, while arrears in respect of the remaining loans have risen, potential losses are provided for.

Our commercial loan book, which is now in run-off, has experienced a number of tenant failures, mainly in the retail sector. Again, appropriate provisions have been made to cover potential losses although, in view of the particular difficulties in the commercial property sector, it is likely that further failures will occur, potentially requiring some additional provisions in the next year or two.

Capital and Liquidity – Security for our Members

Although our overall capital position remains strong, with a solvency ratio of just over 14% and confirmation having been received of the Society's eligibility for the Government's Credit Guarantee Scheme, we took the opportunity shortly after the year end to strengthen this position further through the issue of Profit Participating Deferred Shares.

This had the impact of increasing the Society's Core Tier 1 ratio, on a pro forma basis, from 6.8% to 11.6%. Core Tier 1 is considered the highest form of capital in that it is able to absorb cyclical losses. We believe that the West Brom, as a result of this transaction, now has one of the strongest Core Tier 1 ratios in the sector.

This is a significant development as the stress tests applied by the regulatory authorities focus on Core Tier 1 as the type of capital that provides the best protection for investors.

In terms of liquidity, we are conscious that, in these unpredictable times, members need to feel confident that they can access their funds, as and when they require them. This is why we are now holding liquidity equivalent to nearly one-third of all members' savings balances.

Financial Services Compensation Scheme – A Mixed Blessing

Under the terms of the Financial Services Compensation Scheme (FSCS) the Society was required to set aside £12.2m towards the costs of protecting those savers exposed to failed banks.

The Society acknowledges that the rules of the Scheme have been in place for some time and we are supportive of the Government's decision to pay out on all savings balances to date and not just those covered by the terms of the Scheme. At the same time, the West Brom echoes the reservations expressed by other building societies about the Scheme's fairness which, it can be argued, penalises prudence. The costs of the Scheme are borne in direct proportion to the size of each institution's retail deposit base. The upshot of this is that organisations funded largely from retail savings, such as building societies, suffer a disproportionate cost compared with those institutions who, through the more complex nature of their business, took on substantially higher risk. Indeed, the fairness of the FSCS was called into question when over 100 MPs signed an Early Day Motion calling for a more equitable scheme.

Mutuality – Giving Members a Voice

As a member based business, the Society has a variety of ways for ascertaining the views and feedback of members which, in turn, help inform the design of products and improvements to our services.

One very public way in which this commitment is manifested is the Annual General Meeting (AGM). Through the mailing for the AGM, members are able to vote on a range of matters, including the election of directors. The event itself also gives members the opportunity to voice their views on issues of importance to them.

Providing a further opportunity for members to discuss issues affecting them is the Society's Members' Forum, which enables members to speak directly with the Society's Chief Executive and other senior management. Launched in 2002, the Forums have been held extensively across the Society's branch network and continue to be a critical element in our communication with members, especially now when economic conditions are unsettled.

As well as these visible ways for gauging member opinion, the West Brom also introduced a comprehensive customer satisfaction survey and mystery shopper programme during the last year. Providing objective measurements on the professional approach and advice of staff and the quality of our services, the findings highlight how the Society enjoys the overwhelming trust of members. Importantly, these recent innovations affirm the Society's existing culture of putting customers first, and will contribute to our implementation of Treating Customers Fairly, a flagship policy of the Financial Services Authority.

This determination to deliver top quality customer service entails a willingness to learn from previous occasions where service levels may have slipped from the high standards we set ourselves. Last year the Society underestimated the popularity of a particular savings product, the Star Account and, as a consequence, struggled to keep up with customer demand. Learning from that experience, including the constructive complaints received from customers, there was no deterioration of service when we launched a similar savings product this year, where demand exceeded even that of Star. Indeed, a customer survey during the period of the product's availability suggested the Society maintained an excellent service throughout the campaign.

Our Staff – Serving our Members

The year has been a demanding one but, as ever, the Society's staff have risen to these demands and pressures with their characteristic commitment and dedication. This has been personified in the Society's recognition system – the Shine Awards – whereby numerous nominations for staff have been received from customers and colleagues alike in acknowledgement of many outstanding examples of excellent work. Similarly, the customer satisfaction survey and mystery shopper programme commended staff on the high standards of customer service where the interests of members is our governing principle.

Another perennial trait of staff is their compassion and goodwill in supporting the community. This was vividly shown in the £20,000 raised by them in a succession of fund-raising ventures for our selected charity of the year, the Midlands Air Ambulance Charity, which does so much to save lives in often hazardous circumstances.

Outlook – Taking the Right Steps

The depth of the economic downturn does not promise any relief in the short-term. Almost certainly, unemployment will continue to rise while the housing and mortgages market will stay subdued. It is also likely that wholesale funds will remain scarce, increasing the intensity of competition for retail funds. Many borrowers, however, are likely to continue to benefit for some time from low interest rates.

There is no denying the present economic uncertainty but I am also confident that, in the West Brom's realigned focus on our distinctive activities as a branch-based regional building society and with our new capital structure completed, we are well-equipped to cope with the testing conditions currently confronting the world of financial services. Significantly, it will also enable us to take advantage of opportunities as market conditions eventually improve. The Society now has even stronger capital and liquidity positions, our trading position is healthy and, as our performance on retail funding demonstrates, we maintain a reputation for offering products that meet the financial needs of customers.

This year saw the West Brom celebrate its 160th birthday as an organisation that now has nearly 600,000 members. In so many ways, the values that have sustained us throughout our long and illustrious history will continue to guide us into the future as an independent building society, committed to serving and rewarding the support and loyalty of our members.

Robert Sharpe
Chief Executive
12 June 2009

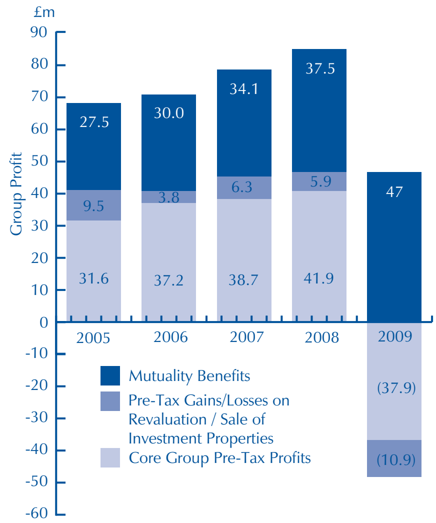
KEY PERFORMANCE INDICATORS

Performance

In 2008, the Group amended its strategy in response to the widespread and unprecedented economic and market turmoil. While the Group, in the long-term, retains its core objective of achieving sustainable growth, the Board decided it would be more appropriate in the short term to step back from any growth objective and focus on adapting to current conditions. This entails an emphasis on measures to provide further security to members and delivery of optimum mutuality benefits to compensate for historically low interest rates, which are adversely affecting savers across the UK.

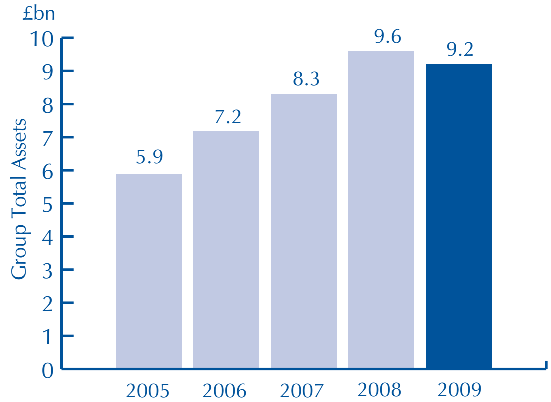
The Group continues to seek long-term sustainable growth, funded predominantly from personal savings.

The key performance indicators are set out below:



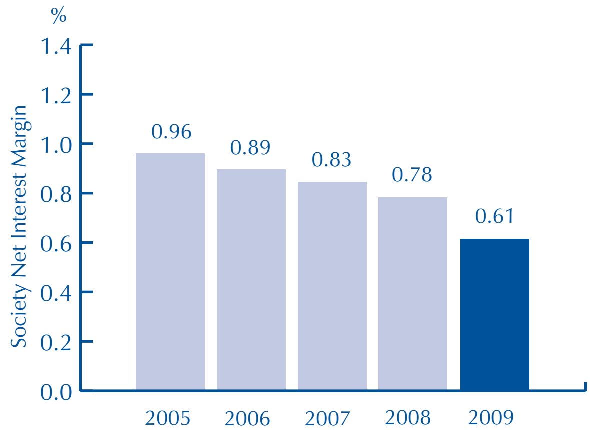
Group Profit

The table above shows the Group's pre-tax profit and losses together with the estimated value of the mutuality benefits we have passed on to members, primarily through offering better value products than banks. Mutuality benefits have increased year-on-year, even in 2009 which has been a difficult year in terms of profitability.



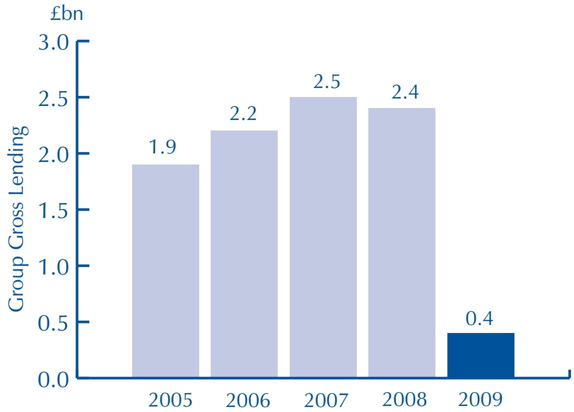
Group Total Assets

The Group's total assets figure (which includes loans secured on property and land, investments, and loans and advances to credit institutions) has declined in line with the Society's decision to restrict new lending in favour of improving liquidity for the benefit and security of existing members.



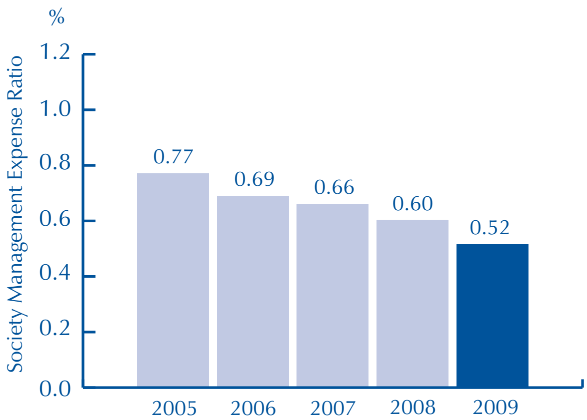
Society Net Interest Margin

The Society's net interest margin represents the difference between the interest percentage received from those borrowing from the Society and the interest payable to investors with the Society. The trend is still downward, largely reflecting the Society's recognition that, with interest rates at a historic low, it is more important than ever to pass on the benefits of mutuality by consistently offering savings products considerably higher than bank base rate.



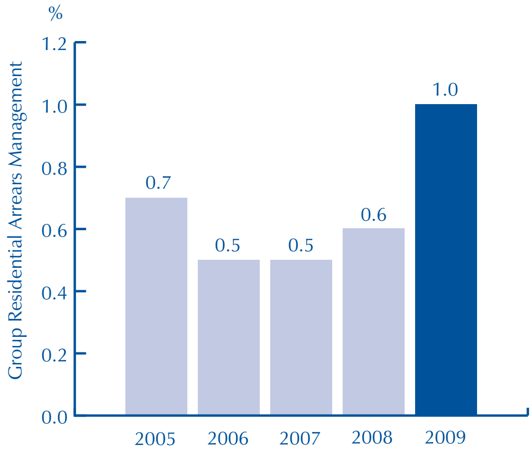
Group Gross Lending

During the year the Group significantly reduced lending volumes in response to the turmoil of the 'credit crunch'. This enabled the Group to focus on enhancing its liquidity, confirming our reputation for providing security for existing members.



Society Management Expense Ratio

This ratio gives an indication of the administrative efficiency of the Society. A low ratio gives the Society the ability to offer attractive interest rates to savers and borrowers. The ratio has improved again, despite the fall in assets over the year, which could have exerted an upward effect on the ratio (the ratio being calculated as total management expenses divided by the average total assets). This is attributable to significant efficiency gains and cost control programmes implemented in the second half of the year. The Society anticipates these efficiency gains will continue and will help drive the management expense ratio even lower.



Group Residential Arrears Management

The residential arrears figures have, in common with the rest of the sector, increased this year. The absolute level of arrears remains low at around half of the sector average (Source: Council of Mortgage Lenders). The Group strives to provide a caring yet pragmatic approach to those borrowers facing financial difficulties and repossession really is a last resort. The Group remains committed to assessing risk and having suitable risk controls in place to ensure the arrears position remains manageable.

RISK MANAGEMENT REVIEW

Overview

The Society's primary aim is to put the safety and security of members' financial interests above everything else. We achieve this by appropriate management of all the risks arising from our business activities.

The main risks we manage are:

- Credit risk;
- Market risk, including Interest Rate risk;
- Liquidity risk; and
- Operational risk.

The Society's Board has ultimate responsibility for developing an appropriate risk and control framework and risk governance is provided through three Board Committees with appropriate representation and attendance from our Non-Executive and Executive Directors, Divisional Directors and risk specialists:

- Audit and Risk Committee, which has overall responsibility for reviewing the internal control and risk management frameworks, including agreeing and monitoring operational risk policies.
- Board Credit Committee, which agrees and monitors retail and commercial lending credit risk policies and monitors product performance.
- Assets and Liabilities Committee, which agrees and monitors liquidity and market risk and credit risk as it relates to treasury counterparties.

Primary responsibility for risk management, including the design and operation of effective controls, rests with the management of each business function – the 'first line of defence'. Support and challenge is provided through specialist risk functions – Credit Risk, Operational Risk and Assets and Liabilities Management – the 'second line of defence'. These functions develop and review policies, monitoring and supporting compliance with those policies, and supporting the business functions to manage risk.

Independent assurance is provided by the Internal Audit function – the 'third line of defence'.

Credit Risk

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

Residential credit risk is managed through the Operations Division, in accordance with the Group's credit policy, which is consistent with the risk appetite established by the Board. The current policy focuses on originating prime residential mortgages sourced through the local branch network. In addition, the rigorous underwriting process ensures the mortgage commitment is affordable, thereby protecting both the Society and the customer. The Society uses external credit reference data as part of its automated decisioning system, which is controlled by the specialist Credit Risk function. Currently, no new non-conforming lending (i.e. commercial, buy-to-let, sub-prime or self-certified) is being undertaken.

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

Additionally, credit risk can occur 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 Assets and Liabilities Management Team (ALM), which is part of the Group Risk Division. On a daily basis, ALM monitors exposures to counterparties and countries, and ensures the Group is operating within its Board approved limits. The Assets and Liabilities Committee (ALCo) and the Board reviews the Treasury Policy and limits, with reports presented to ALCo on a monthly basis confirming compliance with such policy limits.

During 2008 and 2009, the Group has maintained a conservative approach to its liquidity management, investing for shortened periods with highly regarded financial institutions. The Group has also moved towards a position of holding a significant proportion of liquidity in the form of Government guaranteed stock, which is considered to be both highly liquid and secure. Treasury operates a strict control framework and exposures are monitored on a daily basis.

Market Risk

Market risk relates to the possible changes in value of, or income arising from, the Group's assets and liabilities as a result of changes in interest/exchange rates or equities. Market risk exposures are managed through the Group Treasury department. This department is responsible for managing the Group's exposure to all aspects of market risk within parameters set by the Board. ALCo reviews the Treasury Policy, recommending changes to the Board as appropriate, and ensures that regular reports on all aspects of market risk (including interest rate risk and foreign currency risk) are assessed and reported to the Board. The principal market risk within the Group relates to interest rate risk; the Group has a minimal net exposure to exchange rates.

The Group's main exposure to equities is through its pension scheme. While the Group does attract funds through index-linked savings products, all exposures to equity indices are fully hedged.

Interest Rate Risk

Interest rate risk arises within the balance sheet as a result of the timing differences of the interest rate re-pricing between the Group's assets and liabilities. To mitigate this the Treasury department uses balance sheet hedging (for example, matching 2 year fixed rate mortgages with 2 year fixed rate saving bonds) and derivative instruments. The use of derivatives is only permitted in accordance with the provisions of the Building Societies Act 1986, which places restrictions on their use.

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

In line with best practice and Basel guidelines the Group considers the impact of a +/- 2% shift in the yield curve. However, in the day-to-day management of the Group the impact of alternate scenarios are also considered.

Interest rate sensitivity also arises from the potential for different interest rates to move in different ways, for example, base rate mortgages funded by LIBOR-linked liabilities. The impact of these mismatches (basis risk) are monitored by the Assets and Liabilities Management team and reported to ALCo. Action is taken to keep any mismatch within its desired range, which could include changing our product mix or the use of derivatives.

Liquidity Risk

Liquidity risk refers to the risk that the Group may not be able to meet its financial obligations as they fall due, or are only able to do so by taking measures which involve an excessive cost. Mortgage lending is usually for terms of up to 25 years while savings accounts have a shorter duration, generally for no more than 5 years. This leads to a mismatch between assets and liabilities, known as maturity transformation.

The Group has a low risk appetite in respect of liquidity risk and has a liquidity policy to maintain sufficient liquid resources:

- to cover cash flow imbalances;

- to cover fluctuations in funding;
- to retain full public confidence in the solvency of the Group; and
- to be in a position to meet its financial obligations.

This is achieved through maintaining a prudent level of liquid assets, using a broad range of funding facilities, and through robust management of the growth of the business.

During the year the Group decreased its reliance upon wholesale funding and increased the amount of retail funding. This shift, as part of its ongoing management process, mitigated through anticipatory action the risks from possible credit rating downgrades. During the year the Group's credit ratings reduced from A2 to A3 (Moody's long-term) and from A to A- (Fitch long-term). Since the year end, these ratings have declined further from A3 to Baa3 (Moody's long-term) and from A- to BBB+ (Fitch long-term).

During the year, there has been inevitable speculation over the impact stemming from worsening economic conditions and the credit ratings adjustments that many organisations within the financial services sector have experienced. Accordingly, in ensuring that its liquidity portfolio remains resilient the Society has invested predominantly in low risk UK Government assets.

The Group has a contingency funding plan, agreed at Board level and reviewed at least annually.

As a result of the global economic uncertainty, our liquidity management processes have been enhanced. The Group ensures that it maintains sufficient highly liquid assets at all times. Liquidity is assessed on an ongoing basis and the frequency and severity of liquidity stress testing has been increased. We continue to monitor market developments to ensure that our liquidity management processes remain robust and appropriate.

The Group has adopted a prudent approach to liquidity management since the start of the 'credit crunch', in spite of the negative impact on the Group's margin. The following table illustrates the composition of the Group's current and historic liquidity portfolio.

Investment	31 March 2009	30 Sept. 2008	31 March 2008
Short term (up to 3 months)	19%	74%	77%
Gilts/T.bills/Government Guaranteed Debt	61%	5%	0%
Longer Term investments (over 3 months)	8%	8%	10%
'AAA' UK Prime Residential Mortgage Backed Securities	12%	12%	12%
Other	negligible %	1%	1%

ALCo monitors the liquidity risk policy and also receives regular updates on the liquidity position. The scope and nature of the liquid assets held by the Group complies with applicable regulatory guidelines.

The development of the approach to liquidity management has positioned the group well to comply with the new FSA Liquidity standard due to come into effect during the next financial year, including the new Individual Liquidity Adequacy Assessment.

Operational Risk

We have adopted a commonly used definition of operational risk – the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

Each of our business functions has a clearly articulated responsibility for identifying, monitoring and controlling its operational risks. The business functions receive support and guidance from the Operational Risk team, which co-ordinates regular reviews with the function Managers and collates the output for review by executive management and the Audit and Risk Committee.

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

DIRECTORS' REPORT

For the year ended 31 March 2009

The Directors are pleased to present their Annual Report, together with the Audited Accounts, for the financial year ended 31 March 2009.

Business Objectives

The main purpose of the Society and its subsidiaries (the Group) is to work together to build trust and to meet the prime financial needs of our members. A new strategy has been adopted, which will reposition the Society by focusing on its strong regional franchise and the core competencies of retail savings and prime residential mortgages. The Society has limited plans for new mortgage lending in 2009/10 but will continue to focus attention on serving the local community through the branch network, providing market leading products and pricing, backed by exemplary customer service.

Business Review (including future developments)

The Group's business and future plans are referred to in the Chairman's Review on pages 1 to 3 and in the Chief Executive's Business Review on pages 4 to 8. This also includes the review of the Key Performance Indicators (KPIs) on pages 9 and 10.

During a period of severe economic turmoil, the West Bromwich Building Society has carefully managed its business, taking hard decisions to cut costs where necessary, but continuing to attract a high level of new retail funds, offering a safe and secure home for new savers through competitive savings products that regularly featured in Best Buy tables.

The Group has not been immune to the difficulties facing the market and the operating profit, before impairments, provisions and revaluation gains or losses, of £38.7m, which includes £10.6m of fair value gains on derivatives, represents a significant fall on the comparable figure for the previous year. The Group is also reporting a post-tax loss of £39.3m, but this is after an extensive review of the commercial lending portfolio and associated provisioning. The residential lending portfolio continues to perform in-line with expectations and well below the CML average arrears levels. However, as expected, there have been some increases in residential arrears accompanied by a reduction in house prices generally, which have led to increased residential lending provisions. Total loan loss provision charges for the year were £65.2m. In addition, there was a £12.2m FSCS charge and a revaluation deficit at West Bromwich Homes of £10.9m.

Profits and Capital

The Group's loss before tax amounted to £48.8m (2008 – profit £47.8m). The loss after tax transferred to the general reserve was £39.3m (2008 – profit £33.1m).

The total Group reserves at 31 March 2009 were £265.3m (2008 – £327.3m) after taking into account a revaluation reserve £4.6m (2008 – £6.1m) and the available for sale and cash flow deficit reserves of £17.6m (2008 – £5.1m).

Gross capital at 31 March 2009 was £530.2m (2008 – £590.3m) including £190.0m (2008 – £188.1m) of subordinated debt and £74.9m (2008 – £74.9m) of subscribed capital.

The main Group ratios were as follows:

Gross Capital Ratio = 6.54%

Free Capital = 5.05%

Liquidity Ratio = 24.95%

Capital Management

Capital is ultimately held for the protection of depositors. The Board sets the internal level of capital with the aim of ensuring minimum regulatory capital levels are always exceeded whilst allowing for the growth aspirations of the business.

The Group's capital availability and requirements are continuously monitored and they are reported on a monthly basis to various committees, senior management and the Board.

The Group's regulatory capital is divided into two tiers:

- Tier 1 capital: retained earnings and reserves created by appropriations of retained earnings and permanent interest bearing shares. The book value of goodwill is deducted in arriving at Tier 1 capital; and

- Tier 2 capital: qualifying subordinated loan capital and collective impairment. Securitisation positions, taking into account any synthetic transaction to protect against loss, are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are calculated by asset class under Basel II using the Standardised approach, this provides an estimate of credit, market and other risks associated with each asset and counterparty.

The table below summarises the composition of regulatory capital and the capital ratios of the Group for the years ended 31 March 2009 and 2008.

During those two years, the individual entities within the Group and the Group itself complied with all the externally imposed capital requirements to which they are subject and maintained capital above minimum thresholds required by the regulators.

The detailed capital disclosures required under Basel Pillar 3 will be available on the Society's website.

	2009 £m	2008 £m
Tier 1 capital	342.1	389.7
Tier 2 capital	209.9	193.4
Investments in securitisations	(11.7)	(33.9)
Total regulatory capital	**540.3**	**549.2**
Total risk-weighted assets and equivalents	**3,829.9**	**3,900.3**
Capital ratio	14.11%	14.08%

*The numerical disclosures in this note are not audited.

Principal Risks and Uncertainties

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 which is part of the Basel II process.

The principal risks inherent to our business are:

- Credit risk
- Market risk (including interest rate risk)
- Liquidity risk
- Operational risk.

Details of how these risks are managed are set out in the Risk Management Review (pages 11 to 13).

In addition to these core risks there is, as a result of the current uncertain economic environment for banks and building societies, the ongoing actions under the FSA's supervisory review process, which include extensive stress testing exercises. The directors are aware, in arriving at their judgements, that the West Brom 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 Society's objective is to minimise the impact of financial risk upon its performance. Financial risks faced by the Group include interest rate, credit, liquidity and currency risks. The Group manages these risks through a risk management framework, Board policies and its Treasury and Credit Risk functions. Details of the Society's financial instruments, hedging activity and risk mitigation can be found in Notes 2 and 12 to the Accounts.

Mortgage Arrears

At 31 March 2009 there were 67 residential and commercial mortgage accounts where payments were 12 months or more in arrears. The total amount outstanding on these accounts was £13.2m, representing 0.19% of mortgage balances, and the amount of arrears was £0.9m. Appropriate provisions were made for potential losses on mortgages in accordance with the provisioning policy set out in Note 1 to the Accounts.

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 2009, the creditor days figure was 21 days. This conforms with the Society's aim of paying creditors promptly.

Charitable Donations

During the year the Society did not make any charitable donations. The Society did, however, raise significant sums through our community programme and voluntary staff initiatives. These are outlined in the Sustainable Development Report (pages 28 and 29).

No donations were made for political purposes, but certain civic duties could, for the purposes of the Political Parties, Elections and Referendums Act 2000, be regarded as a 'donation'. 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.

Staff

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

The Group has systems that provide information to employees, permitting them to participate in the operation and development of the business. The Group consults with the West Bromwich Building Society Staff Union. Additionally, details of meetings, team briefings, circulars and information updates are placed on the Society's intranet to ensure that employees are aware of the Society's objectives and performance and conscious of the wider financial and commercial environment in which the Society functions.

Directors' Responsibilities for Preparing the Annual Accounts

The following statement, which should be read in conjunction with the statement of the Auditors' responsibilities on pages 30 and 31, is made by the Directors to explain their responsibilities in relation to the preparation of the annual accounts, Annual Business Statement and Directors' Report.

For each financial year, the Directors are required by the Building Societies Act 1986 ('the Act') to prepare annual accounts, which give a true and fair view of the:

- income and expenditure of the Society and the Group for the financial year; and
- state of affairs of the Society and the Group as at the end of the financial year.

The Act states that 'references to IAS accounts giving a true and fair view are references to their achieving a fair presentation'.

In preparing those accounts, the Directors are required to:

- select the most appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the accounts have been prepared in accordance with International Accounting Standards; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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

Directors' Responsibilities for Accounting Records and Internal Control

The Directors are responsible for ensuring that the Group:

- keeps accounting records in accordance with the Building Societies Act 1986; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the Rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

As well as our branch network and contact centre, the Society can be contacted via our website, www.westbrom.co.uk. The maintenance and integrity of the Society website is the sole responsibility of the Directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual accounts. The basis of the Directors' assessments and assumptions for going concern are included in Note 1, page 39.

Auditors

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

Brian Woods-Scawen

Dr Brian Woods-Scawen CBE
Chairman
12 June 2009

DIRECTORS

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

Dr Brian Woods-Scawen CBE (Chairman)
Graham J Wentzell (Deputy Chairman – to 23.07.2008)
John Bywater
Gary T Cowdrill*(Group Finance Director)
David Huw Davies
Edwin Hucks (Senior Independent Director and Deputy Chairman)
Lesley James CBE
Stephen A Karle*(Chief Executive – to 10.10.2008)
Bharat C Shah
Robert Sharpe*(Chief Executive – from 13.10.2008)
Roger D Smith*(Group Commercial Director)
Mark Stansfeld

* = Executive Directors

All Directors are members of the Society. None of the Directors have any beneficial interest in, shares in or debentures of, any associated body of the Society.

In May 2009 Gary Cowdrill took early retirement and Jonathan Westhoff joined the Society as our new Group Finance Director. Also, in April 2009 Roger Smith left the Society after a management restructure.

CORPORATE GOVERNANCE REPORT

Report of the Directors on corporate governance for the year ended 31 March 2009

The Board of Directors (the 'Board') believes that achieving the highest standards in corporate governance is essential for the ongoing success of the Society. The Society has therefore adopted the Combined Code on Corporate Governance (the 'Code') issued by the Financial Reporting Council.

The Board has considered the Society's compliance with the Code provisions and has commented below on how the Society complies with the Code's Main Principles (which are shown in italics).

A. Directors

The Board

Every Company should be headed by an effective Board, which is collectively responsible for the success of the Company.

Comment: The principal functions of the 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 enable 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 necessary to ensure the proper discharge of its duties. There are usually nine formal Board meetings each year although additional meetings can be called on demand. In addition, the Non-Executive Directors meet without Executive Directors at least once a year. The Non-Executive Directors also meet without the Chairman present in order to appraise the Chairman's performance as part of the annual Board assessment. The number of meetings of the Board and Board Committees (including individual attendance of Directors) is shown on page 23.

The Society has appropriate Directors and Officers' insurance cover in respect of their activities on behalf of the Society. All Board members have access to independent legal advice if required.

Chairman and Chief Executive

There should be a clear division of responsibilities at the head of the Company between the running of the Board and the Executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision.

Comment: The positions of Chairman and Chief Executive are held by different people and represent distinct roles. The respective roles are detailed in a letter of appointment (for the Chairman) and a service contract (for the Chief Executive). The Chairman has responsibility for the leadership of the Board (including ensuring the Board's effectiveness, setting the Board agenda, ensuring Directors receive accurate, timely and clear information and facilitating effective communication with members). The Chief Executive is responsible for the management of the Group within such parameters as are set by the Board.

Brian Woods-Scawen met the independence criteria set out in the Code on his appointment as Chairman in February 2006.

Board Balance and Independence

The Board should include a balance of Executive and Non-Executive Directors (and in particular independent Non-Executive Directors) such that no individual or small group of individuals can dominate the Board's decision-taking.

Comment: The Board currently comprises two Executive Directors and seven Non-Executive

Directors (including the Chairman). The Code contains an 'independence' test for Non-Executive Directors, which has been considered by the Board. The Board regards all Non-Executive Directors as independent in character and judgement and free of any relationship or circumstances that might materially interfere with the exercise of their judgement.

The Combined Code recommends the appointment of a Senior Independent Director. The Board has appointed a Senior Independent Director, Edwin Hucks, who is available to deal with those issues that cannot be dealt with through the Society's conventional member complaints procedure.

Appointments to the Board

There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

The Board has a Nominations Committee, consisting of Brian Woods-Scawen (Chairman) and Lesley James, who are considered by the Board to be 'independent' (as defined under the Code).

The Terms of Reference for the Nominations Committee are available on request from the Group Secretary. The Nominations Committee ensures that any appointments to the Board are made on merit and judged against objective criteria. The Nominations Committee assesses the requirements resulting from the Group business and identifies when vacancies are likely to arise. This has been documented in a Board Succession Plan.

Over recent years the Society has used a variety of ways to identify suitable candidates. These include:

- members receive a mailing inviting applications for such vacancies (with such applications being kept on file if the skill sets do not match the current vacancies);

- advertisements placed in Society branches and/or newspapers; and

- the use of an external search consultant to identify candidates and also to objectively assess candidates against a set of written criteria.

In addition, the Society's Rules allow members of the Society to nominate candidates for election to the Board.

All Directors fulfil the test of fitness and propriety laid down by the FSA and are required to be registered as an 'approved person' so that they can fulfil their controlled function as a Director. Additionally, Directors are registered with the Office of Fair Trading so that Consumer Credit Act regulated transactions can be carried out.

After the financial year end a review identified a breach in the Society's controls leading to the discovery that two Directors, Mark Stansfeld and Lesley James, had not maintained the £1,000 minimum balance required under the Society's Rules. Both have remedied the breach and were formally re-appointed as Directors in June 2009.

The service contracts of Executive Directors and the letters of appointment of Non-Executive Directors are available for inspection on request from the Group Secretary.

Information and Professional Development

The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Comment: The Chairman ensures that information is provided in a sufficiently clear form and appropriate quality to Directors so that they are able to discharge their duties. This is implemented through liaison with the Group Secretary and senior management.

All Directors joining the Board receive a formal induction, including a site visit, talks by the senior management and information relevant to the Group's operations.

The Chairman and the Group Secretary regularly assess the training requirements of the Directors in respect of their roles on the Board and on the relevant Board committees.

The Group Secretary is responsible for advising the Board, through the Chairman, on all governance matters. The Group Secretary is also available to all Directors in respect of clarification and explanation of Board procedures.

Performance Evaluation

The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.

Comment: the Board (including each Board Committee) has adopted a formal, rigorous annual evaluation to assess whether or not each Director continues to contribute effectively as well as demonstrating their commitment to the role. The Chairman facilitates the evaluation of the Non-Executive Directors. The Senior Independent Director facilitates the assessment of the Chairman. The Executive Directors are evaluated both within the Board assessment process and through using objective criteria set by the Remuneration Committee in terms of their remuneration. In this context, the Chief Executive is assessed by the Chairman, with the other Executive Directors being assessed by the Chief Executive.

Re-election

All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

Comment: All new Directors are submitted for election at the first Annual General Meeting (the 'AGM') following their appointment to the Board. The only exception to this is where the appointment is made between the end of the Society's financial year and the AGM itself. If this occurs, as required by the Society's Rules, the Director is presented for election at the following year's AGM. All Directors must seek re-election every three years after first being elected.

The Board has agreed that Non-Executive Directors can serve up to a maximum of three three-year terms. Before a Director is considered for a third three year term, the Board conducts a particularly rigorous review, taking into account the need for progressive refreshing of the Board.

Of the current Board, two Directors – Lesley James and Edwin Hucks – have entered their third three-year term. The Board conducted a thorough review of their independence and was satisfied that they remained independent. Notwithstanding this, in the interests of good corporate governance, the Board agreed that both Directors should enter into one-year letters of appointment and, therefore, be subject to re-election at each AGM. However, in the case of Lesley James the control breach referred to earlier and her subsequent re-appointment means that under the Society's Rules she is next required to stand for election in 2010.

B. Remuneration

The level and make-up of Director remuneration and the procedure for developing policy on executive remuneration, including fixing the remuneration packages of individual Directors, is considered by the Remuneration Committee. The Remuneration Committee's work, and the Society's compliance with Code principles relating to remuneration, is covered in the Directors' Remuneration Report on pages 24 to 27.

C. Accountability and Audit
Financial Reporting

The Board should present a balanced and understandable assessment of the Company's position and prospects.

Comment: the Directors' Report on pages 14 to 17 details the responsibilities of the Directors in preparing the Society's accounts. It also includes a statement that the Society's business is a going concern.

Internal Control

The Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.

Comment: the Board considers the effectiveness of the Group's system of internal controls on a quarterly basis. This review encompasses all material controls, including financial, operational and compliance controls and risk management systems. This is carried out by the Audit and Risk Committee and reported to the Board at the next Board meeting.

The Board takes responsibility for the development of strategies concerning risk management and control. The operational responsibility for ensuring that suitable risk management systems are in place for the Group's operations resides with the Divisional Director (Risk) and the Group's Risk Division. The Risk Division also facilitates the ongoing identification, evaluation and management of significant risks encountered by the Group. The Board reviews this process regularly.

The system of internal control is designed to allow the Society to achieve its corporate objectives within a managed risk profile. However, no system of internal control can completely eradicate risk. As such, the internal control system can provide only reasonable, and not absolute assurance against material misstatement or loss.

The Board and the Audit and Risk Committee regularly review the operational risk profile of the Group, taking the Group's risk appetite into account. Evidence of the operational risk profile of the Group is provided by the Risk Division, taking into account risk assessment submissions from the Divisional Directors and other senior managers within the Group. The Board and the Audit and Risk Committee consider both a list of the key risks currently affecting the Group and a list of identified risks that may have an impact on the Group in the short to medium term.

The Group has also implemented the provisions set out in the Basel Capital Accord (commonly known as 'Basel II'). This requires a thorough assessment of the risks that the Society faces, together with comprehensive analysis of the Society's risk management processes.

With regard to risk management, the Society's framework is described in detail in the Risk Management Review on pages 11 to 13.

Ultimate responsibility for all material controls (including financial, operational and compliance controls and risk management systems) lies with the Board. The Audit and Risk Committee has reviewed such systems and is content that the Group's systems are both appropriate and within the requirements of the Code and the additional Turnbull guidance.

Audit and Risk Committee and Auditors

The Board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

Comment: the Board has an Audit and Risk Committee comprising three Non-Executive Directors, all of whom are considered independent for the purposes of the Code. The Audit and Risk Committee is chaired by Ed Hucks, the Senior Independent Director. In David Huw Davies (who is currently Finance Director of an external institution), the Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The Chairman of the Audit and Risk Committee receives additional fees in recognition of his added responsibilities. The terms of reference of the Audit and Risk Committee are available from the Group Secretary on request.

The Audit and Risk Committee has adopted the role and responsibilities as set out in the Code. The Audit and Risk Committee has developed a policy on the engagement of external auditors to supply non-audit services which is operated within the Group and in tandem with the auditors' own internal policy on providing non-audit services. Furthermore, the Audit and Risk Committee has devised a 'whistleblowing' policy to enable Group staff to raise concerns in confidence about possible improprieties in matters of financial reporting or other issues. This policy has taken account of the Public Interest Disclosure Act 1998.

There have been four meetings of the Audit and Risk Committee during the financial year 2008/2009. Executive Directors and other members of senior management (by invitation only) attend meetings of the Audit and Risk Committee. Those employees who regularly attend include the Chief Executive, the Group Finance Director, the Divisional Director (Risk), the Internal Audit Manager, the Compliance Officer, the Operational Risk Manager and the Group Secretary. The Board receives regular reports on Audit and Risk Committee meetings and also receives copies of the minutes of such meetings.

During the last financial year, the Audit and Risk Committee has considered the following issues:

- assessing the integrity of the Group's financial statements (including formal announcements relating to such statements);
- reviewing and approving significant financial reporting issues and accounting policies/issues;
- reviewing the Group's internal controls and risk management systems;
- monitoring and reviewing the Group's internal audit, compliance and operational risk functions;
- assessing the reappointment of the external auditor (including a review of the external auditor's independence and objectivity and the effectiveness of the audit process); and
- considering the significant existing and possible risks affecting the Group, and assessing how they have been identified, evaluated and managed.

D. Relations with Shareholders
Dialogue with Institutional Shareholders

There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has a responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Comment: the Society has members as opposed to shareholders. The overwhelming majority of the Society's almost 600,000 members are individuals who are all customers of the Society. Feedback from members and customers is invaluable in the operation and development of the Group. The Group uses various means for ascertaining feedback, including:

- regular Members' Forums held around the branch network;
- assessing enquiries from the Society's contact centre and website;
- analysing the nature and quantity of customer complaints;
- customer research on specific topics; and
- customer satisfaction surveys and mystery shopper programme.

All of the above methods for gaining feedback are used to inform the Society's 'Treating Customers Fairly' programme as laid down by the Financial Services Authority.

Constructive Use of the Annual General Meeting (AGM)

The Board should use the AGM to communicate with investors and to encourage their participation.

Comment: all members who are eligible to vote are sent a Summary Financial Statement and details of the AGM. Proxy forms are also included in the AGM mailing to permit those members who do not attend the meeting to cast their vote.

The Society uses independent scrutineers to count all proxy votes received by post.

All Board members are expected to be present at the AGM each year (except in the case of unavoidable absence). The Chairmen of the Audit and Risk, Remuneration and Nominations Committees are available to answer questions at the AGM.

The Notice of the AGM and related papers are sent at least 21 days before the AGM in accordance with the Building Societies Act 1986.

Attendance Records – Board and Board Committee Meetings

The table below shows the attendance of each Director at the relevant Board and Board Committee meetings. The number outside the brackets is the number of meetings actually attended; the number inside the brackets is the number of meetings the Director was eligible to attend.

Attendance Records – Board and Board Committee Meetings

Director	Board	Assets and Liabilities Management Review	Audit & Risk	Board Credit	Remuneration	Nominations
Dr. Brian Woods-Scawen CBE	*13 (13)	1 (3)			2 (2)	*3 (3)
John Bywater	10 (13)	1 (3)		*4 (4)		
Gary T Cowdrill	13 (13)	3 (3)		3 (4)		
David Huw Davies	13 (13)	3 (3)	2 (4)			
Edwin Hucks	11 (13)	2 (3)	*4 (4)			
Lesley James CBE	12 (13)	1 (3)			*2 (2)	3 (3)
Stephen A Karle	7 (7)	*1 (1)		2 (2)		
Bharat C Shah	13 (13)	2 (3)	4 (4)			
Robert Sharpe	5 (5)	2 (2)		2 (2)		
Roger D Smith	13 (13)	2 (3)		4 (4)		
Mark Stansfeld	12 (13)	1 (3)		2 (4)	2 (2)	
Graham J Wentzell	4 (5)			*1 (1)	1 (1)	2 (2)

* indicates that the individual is the Chair of the Board/Board Committee

- Board Credit Committee – Graham J Wentzell Chair for April 08 meeting – John Bywater Chair from July onwards.
- Assets and Liabilities Management Review – Stephen A Karle Chair for May 2008 meeting – Robert Sharpe Chair from November 2008 onwards. Non-Executive Directors attended on a rotational basis.

Dr Brian Woods-Scawen CBE
Chairman
12 June 2009

DIRECTORS' REMUNERATION REPORT

The purpose of this report is to inform members of the current policy for the remuneration of Directors, as established by the Remuneration Committee (see below) and the Board, taking into account the relevant recommendations contained in the Combined Code on Corporate Governance. The report is therefore based upon the provisions set out in the remuneration section of the Combined Code. The Society is of the view that it complies with all Code provisions unless the contrary is stated.

The Level and Make-up of Remuneration

Code Principle B.1: levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Director's remuneration should be structured so as to link rewards to corporate and individual performance.

Comment: the Remuneration Committee compares pay and employment conditions for Executive Directors both on the basis of positioning the Society relative to other competitors and by comparison to suitably challenging performance indicators (which are used as a basis for performance-related remuneration). In carrying out such comparisons, the Remuneration Committee takes account of pay and employment conditions within the Group, especially when determining annual salary increases.

Performance-related remuneration is a key part of the reward package for Executive Directors and other Executives. Such performance-related remuneration schemes are designed to align the interests of the members with the interests of the Directors, and to give the Directors key incentives to perform at the highest levels. All incentive schemes used by the Society are subject to challenging performance criteria reflecting the Society's objectives, with these objectives being set and regularly reviewed by the Remuneration Committee. Details of the Executive Directors' remuneration are set out below:

During the financial year, there were four elements to the Executive Directors' remuneration:

- basic salary
- an annual bonus scheme
- a medium term bonus scheme
- other benefits (including pension).

Basic Salary

The Remuneration Committee considers external data from independent national surveys and peer group building societies in assessing and setting basic salary levels for Executive Directors, as well as other Executives. The Remuneration Committee also instructs an external remuneration consultant to compare and contrast proposed pay reviews against external comparators.

No salary increases for Executive Directors or other Executives were awarded on 1 April 2009, the normal review date.

Annual Bonus

The annual bonus is linked to improvements in profit and specific mutuality benefits; this enables remuneration to be linked to delivering maximum member value. The bonus is paid on a graduated scale designed to achieve an ongoing balance between:

- ensuring appropriate profits;
- developing the Group; and
- increasing mutuality benefits – e.g. providing better investment and mortgage rates, using extra rate benefits to reward loyalty, contributing to the success of the Society and developing support for the community.

No annual bonus payments have been made to Executive Directors or other Executives in office at 31 March 2009 for the period 1 April 2008 – 31 March 2009.

Medium Term Bonus Scheme – The medium term bonus (covering a three year period) is paid on performance criteria aligned to targets set out in the Corporate Plan, such as improving efficiency by reducing the Society's management expenses ratio, achieving excellent customer and employee satisfaction ratings.

Two Executive Directors, Roger Smith and Gary Cowdrill, were entitled to a bonus payment of £15,000 under the medium term bonus scheme for 2008/09. However, both voluntarily agreed to waive their entitlement. There have been no medium term bonus payments made to other Executives.

Other Benefits – Other Executive Director benefits are benchmarked against similar organisations. These benefits include car and fuel allowances or a cash allowance; medical insurance and health screening; housing allowance and a contributory final salary pension scheme or, in Mr Sharpe's case, a cash allowance instead of a pension. The pension scheme provides a lump sum of four times basic salary in the event of death in service. All employees, including Executive Directors, who were eligible for the final salary scheme, made personal contributions of up to 7% of salary. As explained in Note 27 the Society has decided to close the Scheme to the future accrual of benefits and is currently undertaking consultation with members to this effect.

Executive Directors' Contractual Terms

All new Executive Director appointments are made on the basis that the new Director will enter into a service contract terminable on 12 months' notice to be given by the Society. Two Executive Directors already have contracts on this basis – Robert Sharpe (Chief Executive – contract date 10 October 2008) and Gary Cowdrill (Group Finance Director – contract date 30 April 2003). One Executive Director's contract (Roger Smith) was entered into on 24 July 2002, before the current standard terms were introduced. Notwithstanding this he voluntarily entered into Deeds of Amendment, which brought him in line with the twelve month notice period mentioned above.

Since the end of the financial year, Gary Cowdrill has retired and Roger Smith has left the Society. Both left the Society in accordance with their contractual terms. Jonathan Westhoff joined the Society as Group Finance Director on terms consistent with those offered to new directors.

Under the terms of his contract Mr Sharpe is permitted to act as a Non-Executive Director for other organisations and retain the fees paid to him in this respect. Since joining the Society Mr Sharpe received £37,000 from Vaultex UK Limited; £26,000 from Barclays Pension Fund Trustees Limited and £6,666 from LSL Properties Plc (from where he has now resigned). Mr Sharpe also served as a Non-Executive Director for Marketing Matters Limited and Marketing Matters Holdings Limited (from which he has now resigned), for which he received no fees.

Non-Executive Directors

The remuneration of Non-Executive Directors is reviewed bi-annually by the Chief Executive and Chairman and any changes are submitted to the Society's full Board for consideration. Fees for Non-Executive Directors were last increased in January 2007, with the exception of the Chairman whose fees were reviewed in April 2008. The review for 2009 resulted in no increase in fees for Non-Executive Directors. Such remuneration is determined by reference to similar sized building societies and competitors. Details of the Non-Executive Directors' emoluments are included in the tables overleaf.

Non-Executive Directors do not have service contracts and are remunerated solely by fees, having no pension, benefits in-kind or bonus.

Procedure in Determining Remuneration

Code Principle B.2: there should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

Comment: the Remuneration Committee has been established for a number of years. The Remuneration Committee is chaired by Lesley James, with Dr Brian Woods-Scawen and Mark Stansfeld as additional members. All members of the Remuneration Committee are considered to be 'independent' by the Board (for the purposes of the Code). The terms of reference for the Remuneration Committee are available on request.

The Remuneration Committee has delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments. The Remuneration Committee also recommends and monitors the level and structure of remuneration for other Executives.

At the Remuneration Committee's invitation, the Chief Executive, Divisional Director (Finance) and Head of Human Resources regularly attend all or part of the Remuneration Committee meetings. The Remuneration Committee has also engaged Deloittes as an external remuneration consultant on an ad-hoc basis.

Non-Executive Directors' Emoluments

Non-Executive Director	2009 Total Fees	2008 Total Fees
	£000s	£000s
Dr Brian Woods-Scawen CBE (Chairman)	**72**	67
John Bywater	**41**	35
David Huw Davies	**35**	35
Edwin Hucks	***53**	53
Lesley James CBE	**43**	43
Bharat Shah	**43**	43
Mark Stansfeld (co-opted 25 April 2007)	**35**	33
Graham Wentzell (retired 23 July 2008)	****16**	51
Total	**338**	360

* Mr Hucks also received £12,000 in respect of consultancy in relation to additional work during the year – overseeing a review of the Society's lending.

** Mr Wentzell also received £29,000 in relation to continuing support to the Board after ceasing to be a Director at the AGM after reaching the age of 65.

2009 Executive Director Remuneration

Executive Director	Salary	Annual Bonus	Medium Term Bonus	Benefits in Lieu of Pension Contribution	Other Benefits	Sub Total	Increase in Accrued Pension	Total 2009
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Robert Sharpe* (Appointed 13/10/08)	141	–	–	35	52	228	–	228
Stephen A Karle** (Resigned 10/10/08)	145	–	–	–	15	160	6	166
Roger D Smith	212	–	–	–	29	241	9	250
Gary T Cowdrill	212	–	–	–	16	228	9	237
Total 2009	**710**	–	–	**35**	**112**	**857**	**24**	**881**

* Mr Sharpe was compensated for various costs incurred in taking up his appointment within the timescale requested by the Board, together with accommodation and travel costs for the first six months of the role.

** Stephen Karle resigned from the Society on 10 October 2008. In addition to the amounts shown above, £520,600 was paid to Mr Karle with respect to his resignation. The payment represents £274,000 notice, £78,000 severance, £68,000 pension, £82,000 bonus and £18,600 in respect of other benefits.

2008 Executive Director Remuneration

Executive Director	Salary	Annual Bonus	*Medium Term Bonus	Benefits	Sub Total	Increase in Accrued pension	Total 2008
	£000	£000	£000	£000	£000	£000	£000
Stephen A Karle	265	–	72	23	360	31	391
Roger D Smith	205	–	55	24	284	12	296
Gary T Cowdrill	205	–	55	12	272	18	290
Total 2008	**675**	–	**182**	**59**	**916**	**61**	**977**

* The Medium Term Bonus Scheme relates to performance for 2005–2008

2009 Directors' Pensions Benefits

Executive Director	Increase in Accrued Pension	Accrued Pension Entitlement	Contributions from Directors	Transfer Value of Accrued Benefits 31 March 2009	Transfer Value of Accrued Benefits 31 March 2008	Movement in Transfer Value less Directors' Contributions
	£000	£000	£000	£000	£000	£000
Stephen A Karle	6	95	11	1,316	1,247	58
Roger D Smith	9	54	15	708	614	79
Gary T Cowdrill	9	83	15	1,237	1,107	115

L James CBE
Chair, Remuneration Committee
12 June 2009

SUSTAINABLE DEVELOPMENT REPORT

The Society is guided by a framework of values, which underlie the core elements of the West Brom as a mutual business owned by and run for the benefit of members. Central to this is the ethic of accountability and the commitment to fostering mutually-beneficial connections with the communities we serve.

This commitment is the foundation of our belief in pursuing sustainable development, which has the purpose of bringing long-term benefits for the Society and our relevant stakeholders – members, staff, communities and business partners – within the context of the Society's social and environmental responsibilities.

Community

Since the West Brom was first formed 160 years ago, supporting the community has been an abiding principle of the Society. This heritage of community support has taken several forms and is presently seen in a diverse range of community and charitable causes, encompassing:

- Corporate support through managed, structured sponsorship and financial assistance programmes.
- Organising or participating in fund-raising activities.
- Employee community involvement where employees take part in community projects with the Society's backing. This has proved to be a rewarding way for staff to nurture existing or new skills while also showing a personal and corporate commitment to the local community.

This community support was highlighted by many examples during the last year, which included:

- The relationship with the Diocese of Lichfield (the Mercian Trust Partnership) continued to be a vital force behind the Society's support for initiatives that tackle real human need at a genuine grassroots level. In the past five years, this has yielded over £1.7million for such work. Providing support for initiatives that can have a meaningful impact was seen in a campaign to reach small-scale neighbourhood projects that are often overlooked by major funding bodies. The profile and scope of the campaign was assisted by linking up with the regional press. In total, over 120 groups benefited.
- The Society was a leading corporate supporter of Birmingham Children's Hospital's Red Balloon Appeal, which aims to make the Hospital a world-class facility in the care and treatment of children. This was shown by the Society's successful Affinity Account with the Hospital, supplemented by a number of staff fund-raising activities.
- The Society's current nominated charity is the Midlands Air Ambulance, which covers a catchment area coterminous with the Society's heartlands in the West Midlands and Shropshire. The charity relies on the generosity of individuals and organisations in raising the £5million required each year to maintain its operations. Over the last 12 months, the Society, especially through the efforts of staff, has raised more than £20,000 for this emergency life-saving service.
- Enhancing the personal and educational development of children and young people has been a mainstay of the Society's community involvement for many years. For instance, the Society's contribution to programmes run by West Bromwich Albion, Walsall Football Club, Shrewsbury Town as well as Dartmouth Cricket Club are designed to provide sporting and educational opportunities for youngsters, particularly in more socially deprived areas.
- Our affinity accounts have also proved very popular over the last year, aiding organisations across a wide spectrum of interest, from welfare and social support, such as the Mercian Trust and

Help the Aged, to sport and recreation, as in Warwickshire Country Cricket Club and Severn Valley Railway.

- The Society has always encouraged the active involvement of staff in assorted community and charitable projects. This has seen staff engaged in helping homeless people at Christmas, performing voluntary work at Birmingham Children's Hospital and offering specialist technical support for specific organisations, such as the 6 Towns Credit Union, the Greets Green Partnership and the Sandwell Climate Change Partnership.

Environment

A critical ingredient of sustainable development is the pursuit of business objectives in ways that limit the negative impact on the environment. With this in mind, the Society is reviewing its existing environmental footprint and is taking steps to cut back on unnecessary waste and energy. In particular, we are focusing on:

- recycling
- paper use/postage/storage and archiving
- energy
- purchasing
- recruitment
- staff awareness and engagement on environmental issues.

Within this remit, the Society is implementing several measures to minimise such impact, including:

- The Society is represented on the Sandwell Climate Change Partnership, an organisation comprising the local authority and businesses, which aims to address the challenges presented by climate change within the immediate borough.
- The Society's procurement policy assesses the environmental and ethical policies of potential suppliers to ensure they comply fully with the West Brom's own stated criteria. Where practicable, the Society checks the supply chain and life cycle of products or services, including factory reports relating to items manufactured abroad. Given the Society's desire to bolster the economic well-being of the immediate community, our preference is to deal with local business partners wherever feasible.
- Recycling is very much part of the Society's operating culture and is evident with many consumables, such as toner cartridges, paper cups and waste paper. This practice is aided by feedback confirming the amount of paper we recycle as well as trees re-planted. We also recycle office furniture through the highly-regarded Green Works company.
- Certain consumables, as in paper supplies, are sourced from sustainable forests with new consumables scrutinised for their environmental influence.
- The consolidation of deliveries to our branch network e.g. cheques, marketing material, internal mail helps avoid unnecessary journeys with an attendant reduction on emissions and associated damage to the environment.

The Society does not knowingly deal with business partners who fail to conform to safety and labour legislation, and other relevant laws, within their respective countries. The Society is adamant in its opposition to the exploitation of workers and upholds fair rewards and acceptable working conditions generally while acknowledging unavoidable local limitations.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WEST BROMWICH BUILDING SOCIETY

We have audited the Group and Society annual accounts of West Bromwich Building Society for the year ended 31 March 2009 which comprise the Group and Society Income Statements, the Group and Society Statements of Recognised Income and Expense, the Group and Society Balance Sheets, the Group and Society Cash Flow Statements and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of directors and officers upon which we are not required to report) and the Directors' Report.

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

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and Accounts including the Directors' Report, the Annual Business Statement and the annual accounts in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 16.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of directors and officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the annual accounts.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986, and regulations made under it and, as regards the Group annual accounts, Article 4 of the IAS Regulation. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the annual accounts and whether the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it. The information given in the Directors' Report includes that specific information given in the Chairman's Review, the Chief Executive's Business Review and Key Performance Indicators that is cross-referred from the Business Review section of the Directors' Report.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and Accounts and consider whether it is consistent with the audited annual accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, Annual Business Statement and Directors' Report. Our responsibilities do not extend to any other information.

Basis of Audit Opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

Opinion
In our opinion:

a) the annual accounts give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the Group and of the Society as at 31 March 2009 and of the income and expenditure of the Group and of the Society for the year then ended;

b) 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;

c) the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and

d) the annual accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986, and regulations made under it and, as regards the Group annual accounts, Article 4 of the IAS Regulation.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

12 June 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2009

Group

	Notes	2009 £m	2008* £m
Interest receivable and similar income	3	**508.7**	538.6
Interest expense and similar charges	4	**(441.7)**	(461.4)
Net interest receivable		**67.0**	77.2
Fees and commissions receivable		**17.3**	20.1
Fees and commissions payable		**(4.7)**	(3.2)
Impairment of goodwill	16	**–**	(2.4)
Other operating income	5	**14.5**	11.7
Total operating income		**94.1**	103.4
Administrative expenses	6	**(49.8)**	(51.7)
Depreciation and amortisation	17,19	**(5.6)**	(5.6)
Operating profit before impairments, provisions and revaluation gains or losses		**38.7**	46.1
(Losses)/Gains on investment properties		**(10.9)**	5.9
Impairment losses on loans and advances	14	**(65.2)**	(6.4)
Provisions for liabilities - FSCS Levy	26	**(12.2)**	–
Provisions for liabilities - Other	26	**0.8**	2.2
(Loss)/Profit before tax		**(48.8)**	47.8
Tax credit/(expense)	9	**9.5**	(14.7)
(Loss)/Profit for the year attributable to members of the Society	31	**(39.3)**	33.1

The loss for the financial year was derived wholly from continuing operations.

The notes on pages 39 to 81 form part of these Accounts.

* The results for 2008 have been restated. See note 1 for further details.

INCOME STATEMENT

For the year ended 31 March 2009

Society

	Notes	2009 £m	2008* £m
Interest receivable and similar income	3	**454.4**	462.4
Interest expense and similar charges	4	**(400.8)**	(400.8)
Net interest receivable		**53.6**	61.6
Fees and commissions receivable		**7.8**	14.3
Other operating income	5	**11.5**	8.2
Total operating income		**72.9**	84.1
Administrative expenses	6	**(39.8)**	(42.6)
Depreciation and amortisation	17,19	**(5.1)**	(4.6)
Operating profit before impairments and provisions		**28.0**	36.9
Impairment losses on loans and advances	14	**(1.3)**	(0.2)
Provisions for liabilities - FSCS Levy	26	**(12.2)**	–
Provisions for liabilities - Other	26	**0.8**	2.2
Profit before tax		**15.3**	38.9
Tax expense	9	**(4.5)**	(11.1)
Profit for the year attributable to members of the Society	31	**10.8**	27.8

The profit for the financial year was derived wholly from continuing operations and is attributable to members of the Society. The notes on pages 39 to 81 form part of these Accounts.

* The results for 2008 have been restated. See note 1 for further details.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 March 2009

	Notes	Group 2009 £m	Group* 2008 £m
Available-for-sale investments:			
Valuation loss taken to equity	31(a)	**(17.6)**	(6.2)
Losses on revaluation of properties	31(b)	**(1.5)**	–
Actuarial loss on retirement benefit obligations	27	**(5.7)**	(2.8)
Cash flow hedge gains taken to equity	31(d)	**0.1**	0.4
Tax on items taken directly to equity		**5.3**	2.3
Net cost recognised directly in equity		**(19.4)**	(6.3)
(Loss)/Profit for the financial year		**(39.3)**	33.1
Total recognised income and expense for the year		**(58.7)**	26.8
Prior period adjustment	1	**(1.6)**	
Total recognised income and expense since last annual report		**(60.3)**	

	Notes	Society 2009 £m	Society* 2008 £m
Available-for-sale investments:			
Valuation loss taken to equity	31(a)	**(17.6)**	(6.2)
Losses on revaluation of properties	31(b)	**(1.5)**	–
Actuarial loss on retirement benefit obligations	27	**(5.7)**	(2.8)
Cash flow hedge gains taken to equity	31(d)	**0.1**	0.4
Tax on items taken directly to equity		**5.3**	2.3
Net cost recognised directly in equity		**(19.4)**	(6.3)
Profit for the financial year		**10.8**	27.8
Total recognised income and expense for the year		**(8.6)**	21.5
Prior period adjustment	1	**(1.6)**	
Total recognised income and expense since last annual report		**(10.2)**	

* The results for 2008 have been restated. See note 1 for further details.

GROUP BALANCE SHEET

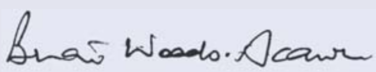
at 31 March 2009

	Notes	**2009 £m**	2008* £m
Assets			
Cash and balances with the Bank of England	10	**8.5**	10.6
Loans and advances to credit institutions		**318.7**	1,187.2
Investment securities: available-for-sale	11	**1,695.1**	914.1
Derivative financial instruments	12	**62.1**	32.6
Loans and advances to customers	13	**6,923.2**	7,279.3
Intangible assets	16,17	**11.1**	11.5
Investment properties	18	**114.4**	124.1
Property, plant and equipment	19	**16.5**	21.5
Current tax assets		**6.9**	–
Deferred tax assets	20	**22.9**	11.4
Trade and other receivables	21	**16.1**	9.8
Total assets		**9,195.5**	9,602.1
Liabilities			
Shares	22	**6,541.3**	5,523.9
Amounts due to credit institutions		**461.5**	525.1
Amounts due to other customers		**497.3**	1,442.7
Derivative financial instruments	12	**125.3**	19.9
Debt securities in issue	23	**992.6**	1,442.8
Current tax liabilities		**–**	5.3
Deferred tax liabilities	20	**8.4**	8.3
Trade and other payables	25	**25.1**	37.9
Provisions for liabilities	26	**12.2**	0.8
Retirement benefit obligations	27	**1.6**	5.1
Subordinated debt	24	**190.0**	188.1
Total liabilities		**8,855.3**	9,199.9
Equity			
Subscribed capital	28	**74.9**	74.9
General reserves	31(c)	**278.3**	326.3
Revaluation reserve	31(b)	**4.6**	6.1
Available-for-sale reserve	31(a)	**(17.9)**	(5.3)
Cash flow reserve	31(d)	**0.3**	0.2
Total equity attributable to members		**340.2**	402.2
Total liabilities and equity		**9,195.5**	9,602.1

*The balance sheet for 2008 has been restated. See note 1 for further details.

The accounting policies and notes on page 39 to 81 form part of these accounts.

Approved by the Board of Directors on 12 June 2009 and signed on its behalf by:



Dr. B Woods-Scawen Chairman

R Sharpe Chief Executive

J Westhoff Group Finance Director

SOCIETY BALANCE SHEET

at 31 March 2009

	Notes	2009 £m	2008* £m
Assets			
Cash and balances with the Bank of England	10	**8.5**	10.6
Loans and advances to credit institutions		**245.9**	1,129.9
Investment securities: available-for-sale	11	**2,877.9**	914.1
Derivative financial instruments	12	**96.2**	30.1
Loans and advances to customers	13	**2,598.5**	2,939.0
Investments	15	**2,905.8**	3,586.2
Intangible assets	17	**5.7**	5.8
Property, plant and equipment	19	**16.2**	21.0
Deferred tax assets	20	**15.4**	9.5
Trade and other receivables	21	**11.0**	5.4
Total assets		**8,781.1**	8,651.6
Liabilities			
Shares	22	**6,541.3**	5,523.9
Amounts due to credit institutions		**461.5**	525.1
Amounts due to other customers		**497.3**	1,442.7
Derivative financial instruments	12	**116.1**	19.7
Debt securities in issue	23	**604.0**	577.0
Current tax liabilities		**5.8**	1.0
Deferred tax liabilities	20	**3.3**	1.4
Trade and other payables	25	**19.9**	26.8
Provisions for liabilities	26	**12.2**	0.8
Retirement benefit obligations	27	**1.6**	5.1
Subordinated debt	24	**190.0**	188.1
Total liabilities		**8,453.0**	8,311.6
Equity			
Subscribed capital	28	**74.9**	74.9
General reserves	31(c)	**266.2**	264.1
Revaluation reserve	31(b)	**4.6**	6.1
Available-for-sale reserve	31(a)	**(17.9)**	(5.3)
Cash flow reserve	31(d)	**0.3**	0.2
Total equity attributable to members		**328.1**	340.0
Total liabilities and equity		**8,781.1**	8,651.6

*The balance sheet for 2008 has been restated. See note 1 for further details.

The accounting policies and notes on pages 39 to 81 form part of these accounts.

Approved by the Board of Directors on 12 June 2009 and signed on its behalf by:

Dr. B Woods-Scawen Chairman

R Sharpe Chief Executive

J Westhoff Group Finance Director

CASH FLOW STATEMENTS

For the year ended 31 March 2009

	Group 2009 £m	Group* 2008 £m	**Society 2009 £m**	Society* 2008 £m
Net cash inflow from operating activities (see page 38)	**454.6**	1,519.0	**458.9**	2,616.8
Tax paid	**(4.9)**	(8.1)	**(0.4)**	(5.3)
Cash flows from investing activities				
Purchase of investment securities	**(5,998.2)**	(2,949.1)	**(7,181.0)**	(2,949.1)
Proceeds from disposal of investment securities	**5,632.9**	3,172.5	**5,632.9**	3,172.5
Purchase of property, plant and equipment and intangible assets	**(2.9)**	(3.0)	**(2.8)**	(5.0)
Proceeds from disposal of property, plant and equipment	**0.1**	0.1	**–**	0.1
Purchase of investment property	**(1.4)**	(6.4)	**–**	–
Proceeds from disposal of investment properties	**0.2**	2.4	**–**	–
New funding to subsidiaries	**–**	–	**(686.5)**	(1,564.5)
Repayment of funding from subsidiaries	**–**	–	**1,366.9**	266.8
Net cash flow from investing activities	**(369.3)**	216.5	**(870.5)**	(1,079.2)
Cash flows from financing activities				
Issue of subordinated liabilities	**–**	25.4	**–**	25.4
Interest paid on subordinated liabilities	**(12.0)**	(12.1)	**(12.0)**	(12.1)
Interest paid on subscribed capital	**(4.6)**	(4.6)	**(4.6)**	(4.6)
Repayment of mortgage backed loan notes	**(476.9)**	(861.5)	**–**	(647.5)
Net cash flow from financing activities	**(493.5)**	(852.8)	**(16.6)**	(638.8)
Net (decrease)/increase in cash	**(413.1)**	874.6	**(428.6)**	893.5
Cash and cash equivalents at beginning of year	**1,643.7**	769.1	**1,586.4**	692.9
Cash and cash equivalents at end of year	**1,230.6**	1,643.7	**1,157.8**	1,586.4

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

	Group 2009 £m	Group 2008* £m	**Society 2009 £m**	Society 2008* £m
Cash in hand	**2.5**	2.8	**2.5**	2.8
Loans and advances to credit institutions	**318.7**	1,164.9	**245.9**	1,107.6
Investment securities	**909.4**	476.0	**909.4**	476.0
	1,230.6	1,643.7	**1,157.8**	1,586.4

The Group is required to maintain balances with the Bank of England which, at 31 March 2009, amounted to £6.0 million (2008: £7.8 million). The movement in this balance is included within loans and advances to credit institutions.

*The cash flows for 2008 have been restated. See note 1 for further details.

CASH FLOW STATEMENTS (continued)

For the year ended 31 March 2009

	Group 2009 £m	Group* 2008 £m	**Society 2009 £m**	Society* 2008 £m
Cash flows from operating activities				
(Loss)/Profit on ordinary activities before tax	**(48.8)**	47.8	**15.3**	38.9
Increase in prepayments and accrued income	**(2.9)**	(0.2)	**(3.0)**	(0.1)
(Decrease)/Increase in accruals and deferred income	**(0.4)**	1.4	**(1.7)**	2.0
Impairment losses on loans and advances	**65.2**	6.4	**1.3**	0.2
Depreciation and amortisation	**5.6**	5.6	**5.1**	4.6
Interest on subordinated liabilities	**12.0**	12.1	**12.0**	12.1
Loss/(Gain) on disposal of fixed assets and investment properties	**1.1**	(0.3)	**1.1**	–
Revaluations of investment properties, land and buildings	**10.9**	(5.6)	**–**	–
Increase/(Decrease) in provisions for liabilities	**11.4**	(2.5)	**11.4**	(2.5)
Movements in derivative financial instruments	**75.9**	4.3	**30.3**	2.0
Movements in fair value adjustment for hedged risk	**(67.2)**	(14.9)	**(8.9)**	5.9
Change in retirement benefit obligations	**(9.2)**	(2.2)	**(9.2)**	(2.2)
Cash flows from operating profits before changes in operating assets and liabilities	**53.6**	51.9	**53.7**	60.9
Net decrease/(increase) in loans and advances to customers	**371.7**	(607.8)	**346.8**	483.4
Net increase in shares	**1,011.9**	1,012.2	**1,011.9**	1,012.2
Net (decrease)/increase in deposits and other borrowings	**(990.6)**	1,066.7	**(975.4)**	1,065.5
Net decrease/(increase) in loans and advances to credit institutions	**22.3**	(3.2)	**22.3**	(3.2)
Net (increase)/decrease in trade and other receivables	**(8.8)**	(2.8)	**1.4**	(1.6)
Net (decrease)/increase in trade and other payables	**(5.5)**	2.0	**(1.8)**	(0.4)
Net cash inflow from operating activities	**454.6**	1,519.0	**458.9**	2,616.8

*The cash flows for 2008 have been restated. See note 1 for further details.

Notes to the Accounts

For the year ended 31 March 2009

1. ACCOUNTING POLICIES

Basis of preparation

As described in the Chairman's and Chief Executive's reviews the financial crisis has had a direct and very significant effect on the Group, which reported a post tax loss for the year of £39.3 million, ending the year with net assets of £9.2bn.

In addition, during and after the year, as explained in the Risk Management Review section and note 2, certain credit rating agencies downgraded the Group. As a result the Group is finding it more difficult to raise funds in the wholesale markets. On the other hand, whilst there has been some unhelpful media comment the Group has successfully increased its retail deposit base which rose by £1.0bn to £6.5bn during 2008/9, by a further £0.8bn through April and May 2009. The Directors, therefore, remain confident in their ability to continue to raise retail deposits.

On 12 June 2009, the Group obtained agreement from the holders of its subordinated debt, with an outstanding principal amount of £182.5 million, to exchange that debt for a new class of equity known as Profit Participating Deferred Shares. This increases the proportion of the Group's regulatory capital which qualifies as Core Tier 1, although the overall capital base remains the same. The Financial Services Authority (FSA) has indicated to the Society that it regards it as better capitalised after this conversion.

The Directors have prepared forecasts for the Group, including of its capital position, for the twelve 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, in particular deterioration in the creditworthiness of its borrowers and in the value of its security. Under this scenario, the Group would suffer a significant reduction in its capital base. The Directors anticipate that any such reduction would only be reversed through the Group's trading performance in subsequent years.

Clearly, therefore, the economic and financial climate presents a number of risks for the Group's business model and its compliance with regulatory requirements. Discussions have been held with the FSA, which has been made aware of the risks for the business. In that context and taking account of the subordinated debt conversion, the Directors' are confident that the Group will continue to satisfy the FSA as to its compliance with all relevant regulatory requirements ('threshold conditions') for the foreseeable future, and thus the Directors have no expectation that the FSA will take adverse regulatory action.

The Directors, therefore, have a reasonable expectation that the Society and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Accounting developments

The following Accounting Standard amendments have been applied in 2008/09:

– Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. The application of these amendments has not affected the Group;

– IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This interpretation has been applied in full. Due to the financial rules of the Group's defined benefit schemes, its application has not impacted upon the Group's disclosures under IAS 19 Employee Benefits, nor is it expected to at future reporting dates.

The following Standard has been adopted by the EU but is not yet effective:

– IFRS 8 Operating Segments is effective for periods commencing on or after 1st January 2009. This standard replaces IAS 14 Segmental Reporting and its application will not have any impact upon the financial results of the Group as it does not change the recognition or measurement of transactions in the consolidated financial statements. The standard aligns the disclosure of operating segments in the financial statements with the internal reporting of segments to senior management.

The following Standards and interpretations are neither adopted by the European Union (EU) nor effective for the 2008/09 year end:

– Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation which is effective for periods commencing on or after 1st January 2009. The revised standard will affect the presentation of owner changes in equity and of comprehensive income. Adoption will not change the recognition, measurement or disclosure of specific transactions or events as required by other standards;

– Amendment to IAS 23 Borrowing Costs which is applicable to borrowing costs related to qualifying assets for which the commencement date for capitalisation is on or after 1st January 2009. The application of this revised standard in 2008 would not have had a material impact on the financial statements;

– Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items which is effective for periods commencing on or after 1st July 2009. This amendment clarifies what can be designated as a hedged item in a hedge accounting relationship. It is not expected that this amendment will have any impact on the Group's ability to achieve hedge accounting; and

– Amendments to IAS 39 Reclassification of Financial Assets: Effective Date and Transition which is effective on or after 1st July 2008. This amendment clarifies the effective date and transition requirements for the change to the standard issued in October 2008, which permits entities to reclassify non-derivative financial assets out of the Fair value through profit and loss category in particular circumstances. The Group has not applied any of the reclassification options available in this amendment.

Basis of consolidation

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

Subsidiaries

Subsidiaries are all entities controlled by the Society. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the results from the date that control commences until the date that control ceases.

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

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

Securitisation transactions

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

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

Prior year adjustment

We regularly undertake a review of the Group's Accounting Policies to ensure compliance with relevant accounting standards and regulations. During the year we have received advice affecting the accounting treatment for our Subscribed Capital - Permanent Interest Bearing shares ('PIBS').

The effect of the advice is that our PIBS should be treated as Equity within our Balance Sheet as full discretion can be exercised over the level of interest payments. Accordingly, PIBS are now classified as Equity and the prior year's figures have been restated to reflect this, as the previous classification under liabilities is now believed to be incorrect.

The classification of PIBS as equity means that any interest payments on them are recognised through equity rather than the Income Statement. The Group held interest rate swaps against these PIBS, which in prior periods were accounted for as a fair value hedge with the carrying value of the PIBS adjusted to reflect the fair values of the hedged risk. IAS 39 specifically excludes the use of hedge accounting for equity instruments therefore the previous hedge accounting has been unwound.

Accordingly, the comparative figures for 2008 have been restated, the effects of the restatement are set out in note 34.

Consolidated income statement presentation format

We continually review the content and presentation of our financial statements to ensure compliance with relevant accounting standards and regulations and also to consider their relevance and usefulness to readers. As a result of this ongoing review we have changed the format of our consolidated income statement to disclose 'Operating profit before impairments, provisions and revaluation gains or losses'. Comparative data has been restated, with revaluation gains and losses, previously included within Total Operating Income, now appearing after the new measure. Total Operating Income for the year ended 31 March 2008 has therefore been reduced by £5.9m.

We believe this revised presentation will provide users of our financial statements with a better understanding of the profitability of our business.

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are restricted to risks and returns that are different from those of other business segments.

Interest income and expense

Interest income and expense are recognised in the Income Statement for all instruments measured at amortised cost or available-for-sale using the effective interest method. Interest income or expense on other financial instruments is recognised within Interest receivable/Interest payable.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment.

Effective interest rate

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid

1. ACCOUNTING POLICIES (continued)

or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income and expense

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

Investment properties

Investment properties are properties held for long-term rental yields and capital appreciation. Investment properties are carried in the balance sheet at fair value, representing open market value determined annually by a qualified internal valuer and at least every five years by an external valuer. Changes in fair values are recorded in the consolidated income statement. In accordance with IAS 40 (revised 2003). Leasehold properties held for long-term rental yields are classified as investment properties and carried at fair value.

Financial instruments

In accordance with IAS 39, the financial instruments of the Group have been classified into the following categories:

At fair value through profit

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group has designated certain derivatives as either:

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

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

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

(a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to profit or loss over the remaining expected life of the previously hedged item.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are recycled to the Income Statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast mortgage completion that is hedged takes place).

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

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement. Certain derivatives are embedded within other financial instruments. If the economic characteristics and risks of such embedded derivatives are not closely related to the host contract, they are treated as separate derivatives. These embedded derivatives are measured at fair value, with changes in fair value recognised in the Income Statement.

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

Available-for-sale (AFS)

The Group's investment securities (e.g. certificates of deposits, gilts, etc) are classified as AFS assets and measured at fair value, with changes in fair value recognised in equity, except for impairment losses.

The premia and discounts arising on the purchase of these assets are amortised over the period to the maturity date of the security on an effective yield basis.

The fair values of AFS 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.

Gains and losses arising from changes in the fair value of AFS financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the Income Statement. However, interest calculated using the effective interest rate method is recognised in the Income Statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset has been impaired. The amount of the loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the Income Statement. The amount of the impairment loss is removed from equity and recognised in the Income Statement. If in a subsequent period the fair value increases, the impairment loss is reversed with the amount of the reversal recognised in the Income Statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and advances to customers, including residential and commercial advances, are classified as loans and receivables. Loans are recognised when the funds are advanced to customers.

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

In accordance with the effective interest method, up-front costs and fees such as: cash backs, mortgage premia paid on acquisition of mortgage books, procuration fees, and completion fees are capitalised and amortised over the expected life of mortgage assets. Mortgage discounts are also amortised over the expected life of the mortgage assets. Historical and forecast mortgage redemption data and management judgement are used to estimate the expected lives of mortgage assets.

Financial liabilities

Borrowings including shares, deposits, debt securities in issue and subordinated liabilities are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

Subsequently the borrowings are measured at amortised cost using the effective interest method and recognised in interest expense and similar charges, except for derivative financial liabilities which are measured at fair value through profit or loss.

Fair value option

Financial assets and liabilities are designated at fair value through profit or loss when this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities on different bases or recognising the gains or losses on them on different bases. The fair value option is used by the Group where financial assets or liabilities would otherwise be measured at amortised cost, the associated derivatives used to economically hedge the risk are held at fair value, and it is not practical to apply hedge accounting.

Impairment of mortgage loans and advances

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

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

If there is objective evidence of an impairment of loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Income Statement.

Impairment losses on debt instruments

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

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

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

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

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

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

1. ACCOUNTING POLICIES (continued)

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.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition or date of implementation of IFRS 3. Goodwill on acquisition of subsidiaries is included in 'Intangible assets'.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, which are non-reversible. Goodwill carried in the consolidated balance sheet is subject to a six monthly impairment review by comparing the value in use, calculated by reference to Cash Generating Units, with the carrying value. When this indicates that the carrying value is not recoverable, it is written down through the Income Statement by the amount of any impaired loss identified.

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 3-7 years; they are subject to regular impairment reviews. Costs associated with maintaining software are recognised as an expense when incurred.

Other acquired intangible assets

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

These intangible assets are held at amortised cost, amortisation is charged to the income statement on a straight line basis over the estimated useful life of 20 years.

Property, plant and equipment

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

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

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

Buildings	50 years
Short Leasehold properties	Annual instalments over the period of the lease
Equipment, F&F 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 balance sheet 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 the carrying amount. These are included in the Income Statement.

Leases

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

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

Foreign currency translation

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash in hand and loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of three months or less.

Taxation

Tax on the profits for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted on the Balance Sheet date, 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 enacted by the balance sheet 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 profit will be available against which the temporary differences can be utilised.

Provisions

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

Employee Benefits

The Group provides a defined benefit scheme on behalf of directors and both a defined benefit scheme and a defined contribution scheme on behalf of staff. The defined benefit scheme is funded by contributions partly from the employees and partly 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 Balance Sheet date and the liabilities are measured using the projected unit valuation method, by qualified actuaries, discounted using a corporate bond rate. The resulting pension scheme surplus or deficit is recognised immediately on the Balance Sheet, net of deferred tax.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by the revised standard, actuarial gains and losses are recognised outside profit or loss and presented in the Statement of Recognised Income and Expense.

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

For defined contribution plans, the contributions are recognised as employee benefit expense in the Income Statement when they are due, in accordance with the rules of the scheme. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Pensions

The Group operates a defined benefit pension scheme. Significant judgements (on areas such as future interest and inflation rates, membership levels and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme. These judgements, which are based upon the Board receiving external advice from the scheme actuaries, are outlined in note 27 to the Accounts.

Impairment losses on loans and advances

The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgement. Provisions are calculated using historic default and loss experience, but require judgement to be exercised in predicting future economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time before impairments are identified (emergence period). The most critical estimate is of the future level of house prices where a variance of 10% equates to £8.2 million of provision. Other sensitivities include the emergence period, where a variance of six months equates to £0.4 million, and the loss given default rate, where a 10% variance equates to £1.5 million of provision.

During the year the Society updated its assumptions regarding future movements in residential house prices and also future interest rates. The application of these updated assumptions resulted in a release of £5.3m from the provision against future losses on equity release mortgages.

Impairment of treasury investments

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

Effective interest rate

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

If the redemption profiles of the mortgages were to change by 5%, the carrying value of mortgages would change by £1.8 million with a corresponding change to income.

Investment properties

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

If house prices were to change by 5%, the carrying value of the Investment properties would change by £5.7 million with a corresponding change to income.

Fair value of derivatives and financial assets

The most reliable fair values of derivative financial instruments and available-for-sale assets are quoted market prices in an actively traded market. Where there is no active market, valuation techniques are used.

Techniques adopted include valuation models used to calculate the present value of expected future cash flows, and options pricing models, if market values are not available. These techniques make use of observable market data and hence fair value estimates can be considered to be reliable. Where inputs are not observable they may be based on historic data. Changes in assumptions used in the models could affect the reported fair value of derivatives and available-for-sale assets.

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

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

Financial Services Compensation Scheme (FSCS)

At the time of preparing the accounts there was a lack of clarity surrounding the levels of contribution that the Society would be required to make to the FSCS. The amount provided is the latest estimate of the contribution required for the 2 scheme years 2008/09 and 2009/10 as advised by the Financial Services Authority. The Society is aware that further fees and exit fees are likely but has not made any provision for them as they cannot be reliably estimated. More detail of the FSCS and the Society's provision are contained in note 26.

Taxation

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

Deferred tax assets

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The recognition of the deferred tax asset is mainly dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences. Tax losses were incurred in the Society and a number of Group Companies in 2009. Management has evaluated the factors contributing to the losses to determine whether the factors leading to the losses are temporary or indicative of a permanent decline in earnings. Based on its analysis, management has determined that the losses were primarily caused by increases in credit losses and contracting margin due to the current housing and credit market conditions, as well as continued weakening in the general economy, which has led to higher unemployment levels and, consequently, higher credit losses. Management's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies. These projections include assumptions about the depth and severity of further house price depreciation, assumptions about the UK recession, including unemployment levels and their related impact on credit losses.

The assumptions surrounding future expected credit losses represent the most subjective areas of judgement in management's projections of future taxable income. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets.

2. FINANCIAL RISK MANAGEMENT

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity. The Group is a retailer of financial instruments, mainly in the form of mortgages and savings. The Group uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding, and to manage the risks arising from its operations.

As a result of these activities, the Group is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk (principally interest rate, foreign currency and equity risk).

Credit risk

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

The Board Credit Committee is responsible for the management of the level of credit risk that has been established by the Board and for approving lending policy and setting limits on credit exposures, which are monitored and reviewed on a monthly basis. The minutes of this committee are presented to the Board. This committee is supported by two Executive sub-committees; the Group Credit Policy Committee and the Large Loans Approvals Committee and their role in the credit risk framework is outlined below:

- The Group Credit Policy Committee is responsible for the monitoring of the Group's 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 and commercial mortgage business and appraises actual arrears and repossession levels against trends and industry averages. The minutes of this committee are presented to the Board Credit Committee.
- The Large Loans Approvals Committee approves large residential and commercial loans at levels mandated by the Board. Details of all loans approved by the committee are provided to the Board.

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

The maximum credit risk exposure is the book value as shown in the book and fair value table on page 57. The Group's most significant exposures to credit risk are loans secured on UK residential properties and loans secured on UK land.

This table below shows analysis of the residential loan portfolio by type of loan:

	Group		Society	
	2009	2008*	**2009**	2008*
	£m	£m	**£m**	£m
Prime owner occupied	**2,354.0**	2,482.7	**1,829.8**	2,032.2
Buy to let	**2,818.5**	2,988.7	**734.5**	873.3
Other	**118.0**	143.9	**3.9**	6.2
Gross balances	**5,290.5**	5,615.3	**2,568.2**	2,911.7
Impairment provisions	**(31.6)**	(22.4)	**(15.3)**	(16.1)
Fair value adjustments	**19.5**	6.8	**15.1**	6.9
	5,278.4	5,599.7	**2,568.0**	2,902.5

The table below shows analysis of the indexed loan to value distribution of the residential loan portfolio at the balance sheet date.

	Group		Society	
	2009	2008*	**2009**	2008*
	£m	£m	**£m**	£m
>95%	**1,781.2**	42.2	**468.5**	32.9
90% – 95%	**552.3**	84.4	**230.9**	39.9
85% – 90%	**457.0**	503.3	**192.7**	102.8
75% – 85%	**639.4**	1,542.9	**326.5**	528.9
50% – 75%	**1,021.0**	2,140.6	**676.4**	1,167.5
< 50%	**839.6**	1,301.9	**673.2**	1,039.7
	5,290.5	5,615.3	**2,568.2**	2,911.7

The Group's average indexed loan to value is 67.1% (2008: 54.6%).

* The prior year figures have been restated to exclude the Commercial FSRP balances of Group – £200.3m, Society – £6.0m. These are now disclosed in Commercial assets.

2. FINANCIAL RISK MANAGEMENT (continued)

The table below provides further information on the Group's loans and advances to customers by payment due status as at 31 March 2009.

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Loans neither past due or impaired	**5,007.5**	5,400.1	**2,453.4**	2,821.9
Past due but not impaired				
– Past due 1 to 3 months	**71.4**	47.2	**34.9**	29.9
– Past due 3 to 6 months	**17.0**	12.1	**10.1**	8.0
– Past due 6 to 12 months	**5.7**	1.0	**3.0**	1.0
– Past due over 12 months	**1.7**	–	**1.2**	–
Impaired				
– Past due 1 to 3 months	**52.5**	88.5	**15.0**	25.9
– Past due 3 to 6 months	**42.4**	35.2	**12.9**	15.0
– Past due 6 to 12 months	**37.8**	11.1	**12.1**	4.0
– Past due over 12 months	**27.1**	2.0	**15.6**	–
Possessions	**27.4**	18.1	**10.0**	6.0
	5,290.5	5,615.3	**2,568.2**	2,911.7

£8m (2008: £3m) of loans that would be past due or impaired have had their terms renegotiated.

The collateral held consists of properties held within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

Fair value of collateral held	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Not impaired	**8,891.5**	11,092.1	**5,354.8**	6,926.9
Impaired	**206.7**	217.3	**89.1**	98.9
Possessions	**25.9**	17.7	**10.5**	6.9
	9,124.1	11,327.1	**5,454.4**	7,032.7

Commercial Assets

	Group		Society	
	2009	2008*	**2009**	2008*
Concentrated by loan type	**£m**	£m	**£m**	£m
Loans secured on commercial property	**1,435.5**	1,476.5	**24.5**	24.5
Loans to housing associations	**5.1**	27.2	**–**	–
Loans secured on residential property	**153.2**	173.1	**6.0**	6.0
Gross balances	**1,593.8**	1,676.8	**30.5**	30.5
Impairment provisions	**(42.1)**	(2.4)	**–**	–
Fair value adjustments	**101.4**	3.1	**–**	–
	1,653.1	1,679.2	**30.5**	30.5

Loans secured on commercial property are further split down into the following:

	Group		Society	
	2009	2008*	**2009**	2008*
	£m	£m	**£m**	£m
Healthcare & Leisure	**250.7**	245.1	**–**	–
Industrial & Warehouse	**103.7**	115.9	**1.2**	1.2
Office	**253.8**	274.4	**11.3**	11.3
Retail	**806.5**	800.3	**12.0**	12.0
Other	**20.8**	40.8	**–**	–
	1,435.5	1,476.5	**24.5**	24.5

The Group's average indexed loan to value at the balance sheet date is 75.8% (2008: 75.1%). £4.9m (2008:nil) of loans that would be past due or impaired have had their terms renegotiated.

Included within commercial loans are £414.4m (2008: £421.7m) of commercial mortgage balances that the Group has sold to bankruptcy remote special purposes entities ('SPEs'). Since the Group maintains substantially all of the risks and rewards emanating from the commercial mortgages, they have been retained on the Group's balance sheet in accordance with IAS 39.

* The prior year Group figures have been restated to show the analysis gross of fair value adjustments of £4.8m.

2. FINANCIAL RISK MANAGEMENT (continued)

The table below provides further information on the Group's loans and advances to customers by payment due status as at 31 March 2009.

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Loans neither past due or impaired	**1,338.6**	1,671.7	**30.5**	30.5
Not past due but impaired	**89.5**	–	**–**	–
Past due but not impaired				
– Past due up to 3 months	**51.8**	1.0	**–**	–
– Past due 3 to 6 months	**4.7**	0.6	**–**	–
– Past due 6 to 12 months	**36.2**	–	**–**	–
– Past due over 12 months	**–**	–	**–**	–
Impaired				
– Past due up to 3 months	**58.7**	1.5	**–**	–
– Past due 3 to 6 months	**8.0**	1.0	**–**	–
– Past due 6 to 12 months	**4.5**	–	**–**	–
– Past due after 12 months	**0.7**	–	**–**	–
Possessions	**1.1**	1.0	**–**	–
	1,593.8	1,676.8	**30.5**	30.5

The collateral held consists of properties, land or other guarantees or cash held within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities. Indexed values were introduced for the year ended 31 March 2009.

	2009		2008
Value of collateral held – Group	**Indexed**	**Unindexed**	Unindexed
	£m	**£m**	£m
Not impaired	**1,542.6**	**2,056.2**	2,634.0
Impaired	**112.2**	**192.8**	8.7
Possessions	**–**	**–**	0.6
	1,654.8	**2,249.0**	2,643.3

	2009		2008
Value of collateral held – Society	**Indexed**	**Unindexed**	Unindexed
	£m	**£m**	£m
Not impaired	**54.2**	**67.3**	67.3
Impaired	**–**	**–**	–
Possessions	**–**	**–**	–
	54.2	**67.3**	67.3

Credit Risk - Loans and advances to credit institutions and Investment securities.

The Group holds treasury investments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group.

The Group determines that treasury assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in valuation, evidence or deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. As at 31 March 2009 none of the Group's treasury portfolio exposure was either past due or impaired.

As at 31 March 2009, 85.6% (2008 – 87.9%) of the Group's treasury investment assets were rated single A or better. The Group continues to have no exposure of any kind to the emerging markets or any mortgage market other than the UK. The tables below show the relative concentrations of the Group's treasury investment portfolio:

2. FINANCIAL RISK MANAGEMENT (continued)

	Group		Society	
	2009	2008	**2009**	2008
Concentration by credit grading	**£m**	£m	**£m**	£m
AAA	**1,459.5**	543.3	**1,387.1**	541.7
AA+ to AA-	**201.7**	1,034.5	**201.2**	978.8
A+ to A-	**136.6**	276.9	**136.6**	276.9
Building Societies	**207.0**	239.4	**207.0**	239.4
Other	**9.0**	7.2	**1,191.9**	7.2
	2,013.8	2,101.3	**3,123.8**	2,044.0
Concentration by sector				
Financial institutions	**959.0**	1,852.8	**886.2**	1,795.5
Local authorities	**9.0**	7.2	**9.0**	7.2
Asset backed securities	**208.9**	241.3	**1,391.8**	241.3
Sovereign	**836.9**	–	**836.8**	–
	2,013.8	2,101.3	**3,123.8**	2,044.0
Concentration by region				
UK	**1,850.3**	1,013.9	**2,960.3**	957.3
Europe (excluding UK)	**104.2**	881.0	**104.2**	880.3
North America	**29.8**	206.4	**29.8**	206.4
Australasia	**29.5**	–	**29.5**	–
	2,013.8	2,101.3	**3,123.8**	2,044.0

2. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

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

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

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

Interest rate risk

Interest rate risk arises from the mortgage, savings and other financial services products that we offer. The varying interest rate features and maturities on these products and the need to raise wholesale funds to fund these products create interest rate risk exposures. These primarily arise from the imperfect matching of interest rates between different financial instruments and the timing differences on the repricing of assets and liabilities. This risk is managed on a continuous basis, within limits set by the Board, through the use of appropriate financial instruments, including derivatives.

The Group monitors risk using a Risk Management System and operates within limits set down by the Board following recommendations from ALCo. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

The primary interest rate risk metric employed by the Group incorporates market value and net interest income methodologies. The Group's exposure to interest rate risk is stress tested against limits by determining the effect of the Group's current net notional value of assets and liabilities for a 1% and 2% parallel shift in the yield curve combined with high and low extremities from 100 random rate scenarios. The results are reviewed monthly by ALCo. The scale of interest risk is controlled by the establishment of an operational range and an absolute limit structure which controls the scale of risk. The Group also operates a gap limit, and the Group's gap positions are reported monthly to the FSA.

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

	As at 31 March 09	**Average 2009**	**High 2009**	**Low 2009**
	£m	£m	£m	£m
Market Value	(6.8)	(5.6)	(3.0)	(12.7)
Net Interest Income	(0.4)	1.4	6.2	(3.0)

The table below shows the impact of various interest rate scenarios on Group profit before tax:

	+1%	**+2%**	**-1%**	**-2%**
	£m	**£m**	**£m**	**£m**
Next 12 months	(0.2)	(0.4)	0.2	0.4
Next 24 months	(5.3)	(10.5)	5.3	10.5
Next 36 months	(8.1)	(16.2)	8.1	16.5

The table overleaf provides a summary of the interest rate repricing profile of the Group's assets and liabilities as at 31 March 2009. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. The table takes account of derivative financial instruments whose effect is to alter the interest basis of Group assets and liabilities.

2. FINANCIAL RISK MANAGEMENT (continued)

As at 31 March 2009

Group

	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m
Assets:							
Liquid assets	1,629.3	32.9	2.1	284.6	54.3	19.1	2,022.3
Derivative financial instruments	–	–	–	–	–	62.1	62.1
Loans fully secured on residential property, land and other loans	4,214.8	182.2	671.0	1,217.6	637.6	–	6,923.2
Tangible and intangible fixed assets	–	–	–	–	–	142.0	142.0
Trade and other receivables	–	–	–	–	–	45.9	45.9
Total assets	5,844.1	215.1	673.1	1,502.2	691.9	269.1	9,195.5
Liabilities:							
Shares	4,322.3	717.7	809.1	531.9	1.3	159.0	6,541.3
Amounts owed to credit institutions, other customers and debt securities in issue	1,742.2	119.7	73.5	15.2	0.8	–	1,951.4
Derivative financial instruments	–	–	–	–	–	125.3	125.3
Trade and other payables	–	–	–	–	–	47.3	47.3
Subordinated debt	5.2	–	10.3	104.2	70.3	–	190.0
Subscribed capital	–	–	–	–	74.9	–	74.9
Reserves	–	–	–	–	–	265.3	265.3
Total liabilities	6,069.7	837.4	892.9	651.3	147.3	596.9	9,195.5
Effect of derivative items	842.0	(13.0)	(44.0)	(482.0)	(303.0)	–	–
Interest Rate Sensitivity Gap	616.4	(635.3)	(263.8)	368.9	241.6	(327.8)	–
Cumulative Interest Rate Sensitivity Gap	616.4	(18.9)	(282.7)	86.2	327.8	–	–

2. FINANCIAL RISK MANAGEMENT (continued)

As at 31 March 2009

Society

	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m
Assets:							
Liquid assets	2,739.3	32.9	2.1	284.6	54.3	19.1	3,132.3
Derivative financial instruments	–	–	–	–	–	96.2	96.2
Loans fully secured on residential property, land and other loans	102.9	124.5	222.7	391.5	1,756.9	–	2,598.5
Investments	–	–	–	–	2,905.8	–	2,905.8
Tangible and intangible fixed assets	–	–	–	–	–	21.9	21.9
Trade and other receivables	–	–	–	–	–	26.4	26.4
Total assets	2,842.2	157.4	224.8	676.1	4,717.0	163.6	8,781.1
Liabilities:							
Shares	4,322.3	717.7	809.1	531.9	1.3	159.0	6,541.3
Amounts due to credit institutions, other customers and debt securities in issue	1,353.6	119.7	73.5	15.2	0.8	–	1,562.8
Derivative financial instruments	–	–	–	–	–	116.1	116.1
Trade and other payables	–	–	–	–	–	42.8	42.8
Subordinated debt	5.2	–	10.3	104.2	70.3	–	190.0
Subscribed capital	–	–	–	–	74.9	–	74.9
Reserves	–	–	–	–	–	253.2	253.2
Total liabilities	5,681.1	837.4	892.9	651.3	147.3	571.1	8,781.1
Effect of derivative items	(294.0)	–	2.0	213.0	79.0	–	–
Interest Rate Sensitivity Gap	(3,132.9)	(680.0)	(666.1)	237.8	4,648.7	(407.5)	–
Cumulative Interest Rate Sensitivity Gap	(3,132.9)	(3,812.9)	(4,479.0)	(4,241.2)	407.5	–	–

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities. Trade and other receivables include other loans, trade and other receivables, prepayments and accrued income. Trade and other payables include trade and other payables, accruals and deferred income and provisions for liabilities.

2. FINANCIAL RISK MANAGEMENT (continued)

As at 31 March 2008

Group – restated

	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m
Assets:							
Liquid assets	2,026.0	15.1	14.4	35.2	7.2	14.0	2,111.9
Derivative financial instruments	–	–	–	–	–	32.6	32.6
Loans fully secured on residential property, land and other loans	4,490.6	173.1	326.0	1,493.9	795.7	–	7,279.3
Tangible and intangible fixed assets	–	–	–	–	–	157.1	157.1
Trade and other receivables	–	–	–	–	–	21.2	21.2
Total assets	6,516.6	188.2	340.4	1,529.1	802.9	224.9	9,602.1
Liabilities:							
Shares	3,785.7	378.0	788.0	406.0	–	166.2	5,523.9
Amounts owed to credit institutions, other customers and debt securities in issue	3,056.1	154.2	155.0	45.3	–	–	3,410.6
Derivative financial instruments	–	–	–	–	–	19.9	19.9
Trade and other payables	–	–	–	–	–	57.4	57.4
Subordinated debt	5.1	10.0	15.5	89.3	68.2	–	188.1
Subscribed capital	–	–	–	–	74.9	–	74.9
Reserves	–	–	–	–	–	327.3	327.3
Total liabilities	6,846.9	542.2	958.5	540.6	143.1	570.8	9,602.1
Effect of derivative items	1,126.7	(26.1)	(44.0)	(549.9)	(506.7)	–	–
Interest Rate Sensitivity Gap	796.4	(380.1)	(662.1)	438.6	153.1	(345.9)	–
Cumulative Interest Rate Sensitivity Gap	796.4	416.3	(245.8)	192.8	345.9	–	–

2. FINANCIAL RISK MANAGEMENT (continued)

As at 31 March 2008

Society – restated

	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m
Assets:							
Liquid assets	1,968.7	15.1	14.4	35.2	7.2	14.0	2,054.6
Derivative financial instruments	–	–	–	–	–	30.1	30.1
Loans fully secured on residential property and other loans	1,796.4	71.5	223.3	593.4	254.4	–	2,939.0
Investments	–	–	–	–	3,586.2	–	3,586.2
Tangible and intangible fixed assets	–	–	–	–	–	26.8	26.8
Trade and other receivables	–	–	–	–	–	14.9	14.9
Total assets	3,765.1	86.6	237.7	628.6	3,847.8	85.8	8,651.6
Liabilities:							
Shares	3,785.7	378.0	788.0	406.0	–	166.2	5,523.9
Amounts owed to credit institutions, other customers and debt securities in issue	2,190.3	154.2	155.0	45.3	–	–	2,544.8
Derivative financial instruments	–	–	–	–	–	19.7	19.7
Trade and other payables	–	–	–	–	–	35.1	35.1
Subordinated debt	5.1	10.0	15.5	89.3	68.2	–	188.1
Subscribed capital	–	–	–	–	74.9	–	74.9
Reserves	–	–	–	–	–	265.1	265.1
Total liabilities	5,981.1	542.2	958.5	540.6	143.1	486.1	8,651.6
Effect of derivative items	(294.0)	–	2.0	213.0	79.0	–	–
Interest Rate Sensitivity Gap	(2,510.0)	(455.6)	(718.8)	301.0	3,783.7	(400.3)	–
Cumulative Interest Rate Sensitivity Gap	(2,510.0)	(2,965.6)	(3,684.4)	(3,383.4)	400.3	–	–

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and investment securities. Trade and other receivables include other loans, trade and other receivables, prepayments and accrued income. Trade and other payables include trade and other payables, accruals and deferred income and provisions for liabilities.

2. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

The Board recognises that a structural maturity mismatch exists within the Group's balance sheet. This is caused by the fundamental purpose of the Group's business: providing its members with long term mortgage advances funded, primarily, by contractually short term retail share accounts. This structural mismatch is the dominant contributor to the Group's liquidity risk.

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due, or can only do so at excessive cost. The Group has a low liquidity risk appetite; its policy is to maintain sufficient liquidity to cover potential cash flow imbalances and fluctuations in funding to retain confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through diverse retail and wholesale funding facilities and through management control of the growth of the business. The Group maintains a contingency funding plan and actively manages its funding operations to minimise liquidity risk. This resulted in actions to reduce the Group exposure to wholesale funding in anticipation of the experienced credit rating downgrades.

It is Group policy to ensure that at all times sufficient liquid assets are available to meet the Group's obligations including the withdrawal of customer deposits, the drawdown of customer facilities and growth in the balance sheet. The development and implementation of liquidity policy is the responsibility of ALCo. The day-to-day management of liquidity is the responsibility of Group Treasury. See the Risk Management Report for further details.

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

As at 31 March 2009

Group

	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Assets:							
Cash and balances with the Bank of England	–	–	–	–	–	8.5	8.5
Loans and advances to credit institutions	119.0	199.7	–	–	–	–	318.7
Investment securities: available-for-sale	–	909.4	36.3	667.0	82.4	–	1,695.1
Derivative financial instruments	–	0.5	0.6	47.3	13.7	–	62.1
Loans and advances to customers	–	13.7	67.3	741.9	6,100.3	–	6,923.2
Intangible assets	–	–	–	–	–	11.1	11.1
Investment properties	–	–	–	–	–	114.4	114.4
Property, plant and equipment	–	–	–	–	–	16.5	16.5
Current tax asset	–	–	–	–	–	6.9	6.9
Deferred tax assets	–	–	–	–	–	22.9	22.9
Trade and other receivables	–	–	–	–	–	16.1	16.1
	119.0	1,123.3	104.2	1,456.2	6,196.4	196.4	9,195.5
Liabilities:							
Shares	3,714.3	721.3	1,559.1	545.3	1.3	–	6,541.3
Amounts due to credit institutions	–	459.5	2.0	–	–	–	461.5
Amounts due to other customers	–	315.6	177.5	4.2	–	–	497.3
Derivative financial instruments	–	0.2	3.3	65.0	56.8	–	125.3
Debt securities in issue	–	116.4	38.1	536.0	302.1	–	992.6
Current tax liabilities	–	–	–	–	–	–	–
Deferred tax liabilities	–	–	–	–	–	8.4	8.4
Trade and other payables	–	–	–	–	–	25.1	25.1
Provisions for liabilities	–	–	–	–	–	12.2	12.2
Subordinated debt	–	–	–	116.1	73.9	–	190.0
Retirement benefit obligations	–	–	–	–	–	1.6	1.6
Subscribed capital	–	–	–	–	74.9	–	74.9
Retained earnings	–	–	–	–	–	278.3	278.3
Revaluation reserve	–	–	–	–	–	4.6	4.6
Available-for-sale reserve	–	–	–	–	–	(17.9)	(17.9)
Cash flow reserve	–	–	–	–	–	0.3	0.3
	3,714.3	1,613.0	1,780.0	1,266.6	509.0	312.6	9,195.5

2. FINANCIAL RISK MANAGEMENT (continued)

As at 31 March 2009

Society

	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Assets:							
Cash and balances with the Bank of England	–	–	–	–	–	8.5	8.5
Loans and advances to credit institutions	119.0	126.9	–	–	–	–	245.9
Investment securities: available-for-sale	–	909.4	36.3	1,849.8	82.4	–	2,877.9
Derivative financial instruments	–	0.5	0.7	41.1	53.9	–	96.2
Loans and advances to customers	–	0.7	1.1	82.6	2,514.1	–	2,598.5
Intangible assets	–	–	–	–	–	5.7	5.7
Investments	–	–	–	–	–	2,905.8	2,905.8
Property, plant and equipment	–	–	–	–	–	16.2	16.2
Deferred tax assets	–	–	–	–	–	15.4	15.4
Trade and other receivables	–	–	–	–	–	11.0	11.0
	119.0	1,037.5	38.1	1,973.5	2,650.4	2,962.6	8,781.1
Liabilities:							
Shares	3,714.3	721.3	1,559.1	545.3	1.3	–	6,541.3
Amounts due to credit institutions	–	459.5	2.0	–	–	–	461.5
Amounts due to other customers	–	315.6	177.5	4.2	–	–	497.3
Derivative financial instruments	–	–	1.9	43.6	70.6	–	116.1
Debt securities in issue	–	114.5	13.7	444.6	31.2	–	604.0
Current tax assets	–	–	–	–	–	5.8	5.8
Deferred tax liabilities	–	–	–	–	–	3.3	3.3
Trade and other payables	–	–	–	–	–	19.9	19.9
Provisions for liabilities	–	–	–	–	–	12.2	12.2
Subordinated debt	–	–	–	116.1	73.9	–	190.0
Retirement benefit obligations	–	–	–	–	–	1.6	1.6
Subscribed capital	–	–	–	–	74.9	–	74.9
General reserves	–	–	–	–	–	266.2	266.2
Revaluation reserve	–	–	–	–	–	4.6	4.6
Available-for-sale reserve	–	–	–	–	–	(17.9)	(17.9)
Cash flow reserve	–	–	–	–	–	0.3	0.3
	3,714.3	1,610.9	1,754.2	1,153.8	251.9	296.0	8,781.1

2. FINANCIAL RISK MANAGEMENT (continued)

As at 31 March 2008

Group – restated

	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Assets:							
Cash and balances with the Bank of England	–	–	–	–	–	10.6	10.6
Loans and advances to credit institutions	61.7	1,103.2	22.3	–	–	–	1,187.2
Investment securities: available-for-sale	–	476.0	45.4	339.0	53.7	–	914.1
Derivative financial instruments	–	2.8	2.2	16.7	10.9	–	32.6
Loans and advances to customers	–	13.3	78.4	800.0	6,387.6	–	7,279.3
Intangible assets	–	–	–	–	–	11.5	11.5
Investment properties	–	–	–	–	–	124.1	124.1
Property, plant and equipment	–	–	–	–	–	21.5	21.5
Deferred tax assets	–	–	–	–	–	11.4	11.4
Trade and other receivables	–	–	–	–	–	9.8	9.8
	61.7	1,595.3	148.3	1,155.7	6,452.2	188.9	9,602.1
Liabilities:							
Shares	3,354.3	570.6	1,186.2	412.8	–	–	5,523.9
Amounts due to credit institutions	–	520.0	5.1	–	–	–	525.1
Amounts due to other customers	–	1,130.4	267.0	45.3	–	–	1,442.7
Derivative financial instruments	–	–	0.1	10.3	9.5	–	19.9
Debt securities in issue	–	509.9	512.0	176.9	244.0	–	1,442.8
Current tax liabilities	–	–	–	–	–	5.3	5.3
Deferred tax liabilities	–	–	–	–	–	8.3	8.3
Trade and other payables	–	–	–	–	–	37.9	37.9
Provisions for liabilities	–	–	–	–	–	0.8	0.8
Subordinated debt	–	–	–	–	188.1	–	188.1
Retirement benefit obligations	–	–	–	–	–	5.1	5.1
Subscribed capital	–	–	–	–	74.9	–	74.9
General reserves	–	–	–	–	–	326.3	326.3
Revaluation reserve	–	–	–	–	–	6.1	6.1
Available-for-sale reserve	–	–	–	–	–	(5.3)	(5.3)
Cash flow reserve	–	–	–	–	–	0.2	0.2
	3,354.3	2,730.9	1,970.4	645.3	516.5	384.7	9,602.1

2. FINANCIAL RISK MANAGEMENT (continued)

As at 31 March 2008

Society – restated

	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Assets:							
Cash and balances with the Bank of England	–	–	–	–	–	10.6	10.6
Loans and advances to credit institutions	6.0	1,101.6	22.3	–	–	–	1,129.9
Investment securities: available-for-sale	–	476.0	45.4	339.0	53.7	–	914.1
Derivative financial instruments	–	2.4	1.3	16.2	10.2	–	30.1
Loans and advances to customers	–	4.2	8.9	106.1	2,819.8	–	2,939.0
Investments	–	–	–	–	–	3,586.2	3,586.2
Intangible assets	–	–	–	–	–	5.8	5.8
Property, plant and equipment	–	–	–	–	–	21.0	21.0
Deferred tax assets	–	–	–	–	–	9.5	9.5
Trade and other receivables	–	–	–	–	–	5.4	5.4
	6.0	1,584.2	77.9	461.3	2,883.7	3,638.5	8,651.6
Liabilities:							
Shares	3,354.3	570.6	1,186.2	412.8	–	–	5,523.9
Amounts due to credit institutions	–	520.0	5.1	–	–	–	525.1
Amounts due to other customers	–	1,130.4	267.0	45.3	–	–	1,442.7
Derivative financial instruments	–	–	0.1	10.1	9.5	–	19.7
Debt securities in issue	–	493.5	37.6	15.2	30.7	–	577.0
Current tax liabilities	–	–	–	–	–	1.0	1.0
Deferred tax liabilities	–	–	–	–	–	1.4	1.4
Trade and other payables	–	–	–	–	–	26.8	26.8
Provisions for liabilities	–	–	–	–	–	0.8	0.8
Subordinated debt	–	–	–	–	188.1	–	188.1
Retirement benefit obligations	–	–	–	–	–	5.1	5.1
Subscribed capital	–	–	–	–	74.9	–	74.9
General reserves	–	–	–	–	–	264.1	264.1
Revaluation reserve	–	–	–	–	–	6.1	6.1
Available-for-sale reserve	–	–	–	–	–	(5.3)	(5.3)
Cash flow reserve	–	–	–	–	–	0.2	0.2
	3,354.3	2,714.5	1,496.0	483.4	303.2	300.2	8,651.6

The subscribed capital consists of PIBS which have no specified maturity date but for this analysis it is assumed that they will be repaid by the Society at the first issuer call date which is 5 April 2021.

2. FINANCIAL RISK MANAGEMENT (continued)

The significant development of liquidity stress testing and forecast models carried out in 2008 has continued in 2009 due to economic and market conditions. A wide range of scenarios are considered in incorporating mild and severe distresses, credit downgrades and a total closure of the wholesale market. An analysis of the liquidity portfolio is set out in the table below:

Group

	2009		2008	
	£m	**%**	£m	%
Cash in hand and balances with the Bank of England	**8.5**	**0.4**	10.6	0.5
Cash with banks and building societies	**318.7**	**15.8**	1,187.2	56.2
Gilts	**67.0**	**3.3**	–	–
Certificates of deposit	**166.0**	**8.2**	471.5	22.3
Local authority investments	**8.6**	**0.4**	7.7	0.4
Fixed rate bonds	**1,033.0**	**51.1**	43.8	2.1
Floating rate notes	**211.6**	**10.5**	147.8	7.0
Residential mortgage backed securities	**208.9**	**10.3**	243.3	11.5
Commercial mortgage backed securities	**–**	**–**	–	–
Total	**2,022.3**	**100.0**	2,111.9	100.0

During the year the liquidity balances have decreased from £2,111.9m at 31 March 2008 to £2,022.3m at 31 March 2009, expressed as a proportion of our combined shares and deposits liabilities this represents a decrease from 26.17% to 24.95%.

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

2009 – Group

	0 - 3 months £m	**3 - 12 months £m**	**1 - 5 years £m**	**Over 5 years £m**	**Total £m**
Liabilities					
Shares	**4,510.2**	**1,602.0**	**601.7**	**1.3**	**6,715.2**
Amounts owed to credit institutions, customers and debt securities	**793.4**	**212.1**	**624.7**	**286.6**	**1,916.8**
Derivative financial instruments	**2.8**	**6.5**	**29.7**	**31.1**	**70.1**
Subordinated liabilities	**1.0**	**9.9**	**152.8**	**125.9**	**289.6**
Subscribed capital	**2.3**	**2.3**	**18.5**	**109.6**	**132.7**
Total Liabilities	**5,309.7**	**1,832.8**	**1,427.4**	**554.5**	**9,124.4**

2008 – Group

	0 - 3 months £m	3 - 12 months £m	1 - 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,968.6	1,177.0	571.9	–	5,717.5
Amounts owed to credit institutions, customers and debt securities	2,156.1	350.7	201.4	329.4	3,037.6
Derivative financial instruments	(1.2)	(9.1)	6.5	24.7	20.9
Subordinated liabilities	1.0	11.0	116.9	172.7	301.6
Subscribed capital	2.3	2.3	18.5	114.2	137.3
Total Liabilities	6,126.8	1,531.9	915.2	641.0	9,214.9

For each material class of financial liability a maturity analysis is provided on pages 51 to 54.

2. FINANCIAL RISK MANAGEMENT (continued)

2009 – Society

	0 - 3 months £m	3 - 12 months £m	1 - 5 years £m	Over 5 years £m	Total £m
Liabilities:					
Shares	**4,510.2**	**1,602.0**	**601.7**	**1.3**	**6,715.2**
Amounts owed to credit institutions, customers and debt securities	**793.4**	**212.1**	**624.7**	**286.6**	**1,916.8**
Derivative financial instruments	**0.3**	**(1.0)**	**5.4**	**4.2**	**8.9**
Subordinated liabilities	**1.0**	**9.9**	**152.8**	**125.9**	**289.6**
Subscribed capital	**2.3**	**2.3**	**18.5**	**109.6**	**132.7**
Total Liabilities	**5,307.2**	**1,825.3**	**1,403.1**	**527.6**	**9,063.2**

2008 – Society

	0 - 3 months £m	3 - 12 months £m	1 - 5 years £m	Over 5 years £m	Total £m
Liabilities:					
Shares	3,968.6	1,177.0	571.9	–	5,717.5
Amounts owed to credit institutions, customers and debt securities	2,156.1	350.7	201.4	329.4	3,037.6
Derivative financial instruments	(1.2)	(9.1)	6.5	24.7	20.9
Subordinated liabilities	1.0	11.0	116.9	172.7	301.6
Subscribed capital	2.3	2.3	18.5	114.2	137.3
Total Liabilities	6,126.8	1,531.9	915.2	641.0	9,214.9

Foreign Currency Risk

Foreign exchange risk arises as a result of activities undertaken by the Group when raising and investing funds in currencies other than sterling, which is done in order to manage wholesale funding costs and the returns on liquid assets and to provide diversity in funding and investment markets. The Group's only foreign currency exposure at 31 March 2009 was £40.8m (2008: £40.9m) consisting of fully hedged Euro Medium term notes.

Equity Risk

Equity Risk arises from index linked savings products which we offer and is managed through the use of derivative contracts. The Group's only exposure to equity risk at 31 March 2009 was £278.8m (2008: £207.6m) of fully hedged savings products.

Derivative Financial Instruments

Instruments used for risk management purposes include derivative financial instruments (derivatives). Derivatives are instruments whose value is derived from one or more underlying price, rate or index (such as interest rates, exchange rates or stock market indices) but have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return, as cash flows are generally settled at a future date. The Group uses derivatives to reduce market risk in its daily activities and are not used in trading activity or for speculative purposes. The nature of these instruments means that the nominal value of these transactions is not included in the balance sheet. The interest payments, receipts and changes in fair value of effective hedges are recognised in the interest margin. Fair values are recorded on the balance sheet.

Types of derivatives

The principal derivatives used by the Group are interest rate swaps, cross currency interest rate swaps, basis swaps and index linked swaps that are used to hedge Group Balance Sheet exposures.

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

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

2. FINANCIAL RISK MANAGEMENT (continued)

Fair Values of Financial Assets and Financial Liabilities

The tables below are a comparison of the book and fair values of the Group and Society's financial instruments by category as at the Balance Sheet date. Market values have been used to determine the fair values of listed debt securities and permanent interest bearing shares. The fair values of all other instruments have been calculated by discounting the expected future cash flows at the prevailing interest rates.

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

Fair Values of Financial Assets and Financial Liabilities

	Group		Society	
	Carrying value 2009 £m	Fair value 2009 £m	Carrying value 2009 £m	Fair value 2009 £m
Financial assets				
Cash and balances with the Bank of England	8.5	8.5	8.5	8.5
Loans and advances to credit institutions	318.7	318.7	245.9	245.9
Investment securities: available-for-sale	1,695.1	1,695.1	2,877.9	2,877.9
Loans and advances to customers	6,923.2	6,981.3	2,598.5	2,617.1
Financial liabilities				
Shares	6,541.3	6,541.3	6,541.3	6,541.3
Amounts due to credit institutions	461.5	461.5	461.5	461.5
Amounts due to other customers	497.3	497.3	497.3	497.3
Debt securities in issue	992.6	993.4	604.0	604.8
Subordinated debt	190.0	222.7	190.0	222.7

	Group		Society	
	Carrying value 2008 £m	Fair value 2008 £m	Carrying value 2008 £m	Fair value 2008 £m
Financial assets				
Cash and balances with the Bank of England	10.6	10.6	10.6	10.6
Loans and advances to credit institutions	1,187.2	1,187.2	1,129.9	1,129.9
Investment securities: available-for-sale	914.1	914.1	914.1	914.1
Loans and advances to customers	7,279.3	7,323.9	2,939.0	2,955.0
Financial liabilities				
Shares	5,523.9	5,523.9	5,523.9	5,523.9
Amounts due to credit institutions	525.1	525.1	525.1	525.1
Amounts due to other customers	1,442.7	1,442.7	1,442.7	1,442.7
Debt securities in issue	1,442.8	1,442.7	577.0	576.9
Subordinated debt	188.1	203.7	188.1	203.7

Effective Interest Rate

The table below summarises the effective interest rate for monetary financial instruments not carried at fair value through profit or loss.

	Group 2009	Society 2009	Group 2008	Society 2008
Assets				
Loans and advances to credit institutions	1.6%	1.6%	5.5%	5.5%
Investment securities: available-for-sale	3.4%	3.4%	5.8%	5.8%
Loans fully secured on residential property	2.3%	2.2%	6.2%	6.2%
Loans fully secured on land	5.9%	8.5%	7.3%	8.5%
Liabilities				
Shares	3.1%	3.1%	5.2%	5.2%
Amounts due to credit institutions	1.3%	1.3%	5.7%	5.7%
Amounts due to other customers	3.9%	3.9%	5.7%	5.7%
Debt securities in issue	1.9%	1.9%	6.1%	5.9%
Subordinated liabilities	6.3%	6.3%	6.9%	6.9%

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Assets				
On loans fully secured on residential property	**321.9**	350.9	**162.5**	195.8
On other loans				
Connected undertakings	**–**	–	**153.9**	181.9
Loans fully secured on land	**93.7**	98.3	**–**	–
On investment securities	**60.2**	50.3	**105.2**	50.3
On other liquid assets	**32.0**	34.1	**31.9**	29.4
Net income on financial instruments	**0.9**	5.0	**0.9**	5.0
Total interest income	**508.7**	538.6	**454.4**	462.4
Interest receivable includes:				
Income from fixed income securities	**37.6**	24.7	**37.6**	24.7

Included within interest income is £0.4million (2008: £0.8m) with respect to the unwind of the impairment provision discount. Included within interest receivable and similar income is interest accrued on impaired financial assets: Group £9.7m (2008: £11.0m) and Society £4.0m (2008: £5.7m).

4. INTEREST EXPENSE AND SIMILAR CHARGES

	Group		Society	
	2009	2008 restated	**2009**	2008 restated
	£m	£m	**£m**	£m
On shares held by individuals	**270.5**	254.5	**270.5**	254.5
On subordinated debt	**12.0**	12.1	**12.0**	12.1
On deposits from banks and other deposits	**154.6**	193.1	**113.7**	131.9
Net expense on financial instruments	**4.6**	1.7	**4.6**	2.3
Total interest expense	**441.7**	461.4	**400.8**	400.8

5. OTHER OPERATING INCOME

	Group		Society	
	2009	2008 restated	**2009**	2008 restated
	£m	£m	**£m**	£m
Other operating income includes:				
Rent receivable	**3.9**	4.3	**0.1**	0.1
Pension fund (cost)/income (note 27)	**(0.2)**	0.7	**(0.2)**	0.7
Net fair value gain on derivatives	**10.6**	2.8	**11.6**	1.2
Income from investments	**–**	–	**–**	6.0
Other	**0.2**	3.9	**–**	0.2
Total other operating income	**14.5**	11.7	**11.5**	8.2

6. ADMINISTRATIVE EXPENSES

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Staff costs				
Wages and salaries	**32.0**	30.3	**28.6**	25.6
Social security costs	**2.9**	2.5	**2.5**	2.2
Other pension (income)/costs	**(5.3)**	2.0	**(5.4)**	2.0
Rental charges payable under operating leases	**1.0**	0.8	**0.8**	0.8
Other administrative expenses	**19.2**	16.1	**13.3**	12.0
	49.8	51.7	**39.8**	42.6
Other administrative expenses include:				
Remuneration of auditors and their associates				
– Audit of these financial statements (excl VAT)	**0.2**	0.1	**0.1**	0.1
– Advisory services in relation to analysis to credit risk (excl VAT)	**0.5**	–	**0.5**	–
– All other services (excl VAT)	**0.2**	0.2	**0.2**	0.1

Wages and salaries in 2008 includes £4.1m redundancy costs paid following the restructure and rationalisation of the Group's cost base. Other pension (income)/costs includes the gain on curtailment of the defined benefit pension scheme (see note 27).

7. EMPLOYEE NUMBERS

	Group		Society	
	2009	2008	**2009**	2008
The average number of employees employed throughout the year was:				
Full time	**816**	847	**756**	780
Part time	**172**	160	**169**	155
	988	1,007	**925**	935
Building Society				
Central administration	**594**	584	**594**	584
Branches	**331**	351	**331**	351
Subsidiaries	**63**	72	**–**	–
	988	1,007	**925**	935

8. DIRECTORS' EMOLUMENTS

Total Directors' emoluments amounted to £1.740m (2008: £1.337m). Full details are given in the Directors' Remuneration Report on pages 24 to 27.

9. TAX (CREDIT)/EXPENSE

	Group		Society	
	2009	2008 restated	**2009**	2008 restated
	£m	£m	**£m**	£m
Current tax				
UK corporation tax at 28% (2008 – 30%)	**(5.0)**	12.1	**2.9**	8.9
Corporation tax - adjustment in respect of prior years	**1.6**	–	**0.3**	–
Total current tax	**(3.4)**	12.1	**3.2**	8.9
Deferred tax				
Current year	**(6.1)**	2.7	**1.3**	2.3
Adjustment in respect of prior periods	**–**	(0.1)	**–**	(0.1)
Tax on (loss)/profit on ordinary activities	**(9.5)**	14.7	**4.5**	11.1

UK corporation tax has been calculated at the applicable prevailing rate. Further information about deferred income tax is presented in Note 20.

9. TAX (CREDIT)/EXPENSE (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	Group		Society	
	2009	2008 restated	**2009**	2008 restated
	£m	£m	**£m**	£m
(Loss)/Profit before tax	**(48.8)**	47.8	**15.3**	38.9
(Loss)/Profit before tax multiplied by the standard rate of tax	**(13.7)**	14.3	**4.3**	11.7
Effects of:				
Expenses not deductible for tax purposes	**0.4**	2.2	**–**	1.3
Unrelieved losses	**1.1**	–	**–**	–
Non taxable income	**(0.1)**	(0.1)	**(0.1)**	(1.9)
Adjustment in respect of prior years	**1.6**	(0.1)	**0.3**	–
Indexation of revaluation gain	**1.2**	(1.6)	**–**	–
Tax (credit)/expense	**(9.5)**	14.7	**4.5**	11.1

10. CASH AND BALANCES WITH THE BANK OF ENGLAND

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Cash in hand	**2.5**	2.8	**2.5**	2.8
Mandatory reserve deposits with central banks	**6.0**	7.8	**6.0**	7.8
	8.5	10.6	**8.5**	10.6

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

11. INVESTMENT SECURITIES

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Investment securities: available-for-sale:				
– listed	**1,529.1**	442.5	**1,529.0**	442.5
– unlisted	**166.0**	471.6	**1,348.9**	471.6
Total securities: available-for-sale	**1,695.1**	914.1	**2,877.9**	914.1

Investment securities are stated at fair value in accordance with IAS39. The Group and Society did not make any material gains or losses from derecognition of available-for-sale financial assets.

The movement in investment securities may be summarised as follows:

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
At 1 April	**914.1**	1,243.8	**914.1**	1,243.8
Additions	**6,431.5**	2,849.0	**7,650.0**	2,849.0
Disposals (sale and redemption)	**(5,632.9)**	(3,172.5)	**(5,668.6)**	(3,172.5)
Losses from changes in fair value	**(17.6)**	(6.2)	**(17.6)**	(6.2)
At 31 March	**1,695.1**	914.1	**2,877.9**	914.1

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

At 31 March 2009, £412.5m (2008: nil) of investment securities were pledged as collateral under sale and repurchase agreements. All sale and repurchase transactions are conducted in line with market standard terms and conditions as defined in ISMA PSA Global Master Repurchase Agreements.

12. DERIVATIVE FINANCIAL INSTRUMENTS

A description of the derivative financial instruments used by the Group for hedging purposes is given in the financial risk management report. The fair values at 31 March 2009 of derivative instruments held are set out below:

		FAIR VALUES	
	Notional Principal amount £m	**Assets £m**	**Liabilities £m**
Group 2009			
Derivatives held for hedging			
Derivatives designated as fair value hedges	**1,614.7**	**27.6**	**(113.1)**
Derivatives designated as cash flow hedges	**40.8**	**15.3**	**–**
Other derivatives held for hedging	**331.6**	**19.2**	**(12.2)**
Total derivative assets/(liabilities) held for hedging	**1,987.1**	**62.1**	**(125.3)**

		FAIR VALUES	
	Notional Principal amount £m	**Assets £m**	**Liabilities £m**
Society 2009			
Derivatives held for hedging			
Derivatives designated as fair value hedges	**946.8**	**61.7**	**(114.7)**
Derivatives designated as cash flow hedges	**40.8**	**15.3**	**–**
Other derivatives held for hedging	**2,877.6**	**19.2**	**(1.4)**
Total derivative assets/(liabilities) held for hedging	**3,865.2**	**96.2**	**(116.1)**

		FAIR VALUES	
	Notional Principal amount restated £m	Assets restated £m	Liabilities restated £m
Group 2008			
Derivatives held for hedging			
Derivatives designated as fair value hedges	940.0	7.5	(12.7)
Derivatives designated as cash flow hedges	40.8	7.0	–
Other derivatives held for hedging	1,441.4	18.1	(7.2)
Total derivative assets/(liabilities) held for hedging	2,422.2	32.6	(19.9)

		FAIR VALUES	
	Notional Principal amount restated £m	Assets restated £m	Liabilities restated £m
Society 2008			
Derivatives held for hedging			
Derivatives designated as fair value hedges	761.8	6.4	(11.6)
Derivatives designated as cash flow hedges	40.8	7.0	–
Other derivatives held for hedging	1,727.6	16.7	(8.1)
Total derivative assets/(liabilities) held for hedging	2,530.2	30.1	(19.7)

13. LOANS AND ADVANCES TO CUSTOMERS

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Loans and receivables				
Loans fully secured on residential property	**5,468.3**	5,822.5	**2,583.3**	2,924.6
Other loans				
Loans fully secured on land	**1,388.9**	1,327.9	**30.5**	30.5
Other loans	**0.2**	0.3	**–**	–
	6,857.4	7,150.7	**2,613.8**	2,955.1
At fair value through profit and loss				
Other loans				
Loans fully secured on land (note 29)	**148.0**	153.4	**–**	–
	7,005.4	7,304.1	**2,613.8**	2,955.1
Less: impairment provisions	**(82.2)**	(24.8)	**(15.3)**	(16.1)
	6,923.2	7,279.3	**2,598.5**	2,939.0

The net loss on loans and advances which are designated as fair value through profit and loss was £nil (2008: £nil).

Included within Loans and Advances to customers are £414.4m (2008: £421.7m) of commercial mortgage balances that the Group has sold to bankruptcy remote special purpose entities (‘SPEs’). The purchase price paid for these commercial mortgages is dependent upon their future performance within the SPEs. The SPEs have been funded by issuing Commercial Mortgage Backed Securities (‘MBS’).

The Group has made sub-ordinated loans to these SPEs to provide some level of credit enhancement to the MBS. In future periods the Group will earn interest income on the sub-ordinated loans, fees for managing the loans and will earn deferred consideration once the cashflows generated by the SPEs have been used to pay interest and capital to the holders of the MBS’s. Since the Group maintains substantially all of the risks and rewards emanating from the commercial mortgages, they have been retained on the Group's balance sheet in accordance with IAS 39. A further £194.3m commercial and £977.0m residential mortgage balances have been sold to bankruptcy remote special purpose entities (‘SPEs’) where the loan notes have been retained by the West Bromwich Building Society.

14. ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

	Loans fully secured on residential property		Loans fully secured on land		Total		
Group	**Individual £m**	**Collective £m**	**Individual £m**	**Collective £m**	**Individual £m**	**Collective £m**	**Total £m**
At 1 April 2008	**20.8**	**1.6**	**1.0**	**1.4**	**21.8**	**3.0**	**24.8**
Amounts written off	**(6.9)**	**–**	**(0.5)**	**–**	**(7.4)**	**–**	**(7.4)**
Discount unwind	**(0.4)**	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Charge for the year comprises:							
Provision for loan impairment	**15.8**	**1.5**	**32.2**	**16.5**	**48.0**	**18.0**	**66.0**
Adjustment to provisions resulting from recoveries	**(0.8)**	**–**	**–**	**–**	**(0.8)**	**–**	**(0.8)**
Charge for the year	**15.0**	**1.5**	**32.2**	**16.5**	**47.2**	**18.0**	**65.2**
As at 31 March 2009	**28.5**	**3.1**	**32.7**	**17.9**	**61.2**	**21.0**	**82.2**
Society							
At 1 April 2008	**15.6**	**0.5**	**–**	**–**	**15.6**	**0.5**	**16.1**
Amounts written off	**(1.7)**	**–**	**–**	**–**	**(1.7)**	**–**	**(1.7)**
Discount unwind	**(0.4)**	**–**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Charge for the year comprises:							
Provision for loan impairment	**2.1**	**–**	**–**	**–**	**2.1**	**–**	**2.1**
Adjustment to provisions resulting from recoveries	**(0.8)**	**–**	**–**	**–**	**(0.8)**	**–**	**(0.8)**
Charge for the year	**1.3**	**–**	**–**	**–**	**1.3**	**–**	**1.3**
As at 31 March 2009	**14.8**	**0.5**	**–**	**–**	**14.8**	**0.5**	**15.3**

	Loans fully secured on residential property		Loans fully secured on land		Total		
Group	**Individual £m**	**Collective £m**	**Individual £m**	**Collective £m**	**Individual £m**	**Collective £m**	**Total £m**
At 1 April 2007	15.6	1.7	0.7	1.3	16.3	3.0	19.3
Amounts written off	(1.0)	(0.6)	(0.1)	–	(1.1)	(0.6)	(1.7)
Discount unwind	0.8	–	–	–	0.8	–	0.8
Charge for the year comprises:							
Provision for loan impairment	6.7	0.5	0.4	0.1	7.1	0.6	7.7
Adjustment to provisions resulting from recoveries	(1.3)	–	–	–	(1.3)	–	(1.3)
Charge for the year	5.4	0.5	0.4	0.1	5.8	0.6	6.4
As at 31 March 2008	20.8	1.6	1.0	1.4	21.8	3.0	24.8
Society							
Adjusted balance at 1 April 2007	14.3	1.0	–	–	14.3	1.0	15.3
Amounts written off	0.1	(0.3)	–	–	0.1	(0.3)	(0.2)
Discount unwind	0.8	–	–	–	0.8	–	0.8
Charge/(Credit) for the year comprises:							
Provision/(Credit) for loan impairment	1.5	(0.2)	–	–	1.5	(0.2)	1.3
Adjustment to provisions resulting from recoveries	(1.1)	–	–	–	(1.1)	–	(1.1)
Charge/(Credit) for the year	0.4	(0.2)	–	–	0.4	(0.2)	0.2
As at 31 March 2008	15.6	0.5	–	–	15.6	0.5	16.1

15. INVESTMENTS

	Society	
	2009	2008
	£m	£m
Shares held in subsidiary undertakings	**6.8**	6.8
Loans to subsidiary undertakings	**2,899.0**	3,579.4
	2,905.8	3,586.2

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

Society	**Total £m**
At 1 April 2008	3,579.4
Decrease in loans to subsidiaries	(680.4)
At 31 March 2009	**2,899.0**

All subsidiary loans are provided at open market rates.

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

Name	**Major activities**	**Class of Shares held**	**Interest of Society**
West Bromwich Mortgage Company Limited	Hold and dispose debts secured on land and lend money on the security of land	Ordinary £1 shares	100%
West Bromwich Commercial Limited	Commercial lending	Ordinary £1 shares	100%
MortgageForce Limited	Franchised mortgage broker	Ordinary £1 shares	100%
WBBS Computer Finance Limited	Leasing and licensing computer equipment	Ordinary £1 shares	100%
CL Mortgages Limited (1)	Hold and dispose of debts secured on land and lend money on the security of land	Ordinary £1 shares	100%
West Bromwich Homes Limited	Investment in property for rental	Ordinary £1 shares	100%
Insync Financial Planning Limited	Financial services product vendor	Ordinary £1 shares	100%
Insignia Finance Limited	Second charge lending	Ordinary £1 shares	80%
White Label Lending Limited (2)	Second charge lending	Ordinary £1 shares	80%

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

Securitisation entities
The results of the following securitisation entities are consolidated into the results of the Group under IAS 27 (Consolidated and separate financial statements).

Name	**Country of incorporation**	**Principal activity**
Sandwell Commercial Finance No 1 Plc	England & Wales	Securitisation entity
Sandwell Finance Holdings Limited	England & Wales	Holding company
Sandwell Commercial Finance No 2 Plc	England & Wales	Securitisation entity
Hawthorn Hold Co Limited	England & Wales	Holding company
Hawthorn Asset Co Limited	England & Wales	Securitisation entity
Hawthorn Finance Limited	Jersey	Securitisation entity
Sandwell Commercial Finance No.3 Ltd	Jersey	Securitisation entity

The Society has no shareholdings in any of the companies listed above. Other than those stated above, all are incorporated in England and Wales and operate in Great Britain.

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

During the year the Society's new majority owned subsidiary Insignia Finance Limited incurred trading losses of £0.3m after taxation. The Minority Interest share of these losses is £60,000. However, since the holders of the minority shares have not given any undertaking to fund such losses, these losses have been allocated to the majority shareholder. The effects of this treatment is that the West Bromwich Group has recognised all of these losses in its net income for the year. Post the year end, the West Bromwich Building Society has acquired the remaining shares in Insignia Finance Limited.

16. GOODWILL

	Group 2009 £m	Group 2008 £m
Cost		
At 1 April	**7.3**	7.3
At 31 March	**7.3**	7.3
Aggregate impairment		
At 1 April	**2.4**	–
Impairment for the year	**–**	2.4
At 31 March	**2.4**	2.4
Net book value at 31 March	**4.9**	4.9

In accordance with IAS38 (Intangible Assets) the goodwill has been assessed as having an indefinite life. The Group carries out an impairment test in relation to goodwill on an annual basis. In assessing the recoverable amount of the goodwill the Group allocates the goodwill to the lowest cash generating unit (CGU) within the Group being Mortgage Force Limited.

The recoverable amounts assessed for the CGU equals or exceeds the carrying value of the goodwill at 31 March 2009 and 2008.

The recoverable amount of each CGU is based upon value in use calculations. The calculations use cash flow projections based upon the five year business plan approved by the Group Board. Further cash flows have then been included for the following 10 years (applying longer term growth rates of 3% (2008: 3%)), reflecting the long term nature of the businesses concerned. The long term growth rates are based upon management's expectations of long term growth in GDP over the forecast period. The pre-tax discount rates used in discounting projected cash flows has been 12.5% for 2009 (2008: 12.5%), reflecting managements required return from such CGU.

17. INTANGIBLE ASSETS

Group

	Computer software 2009 £m	Brand name 2009 £m	Total 2009 £m	Computer software 2008 £m	Brand name 2008 £m	Total 2008 £m
Cost						
At beginning of year	18.4	0.6	19.0	27.6	0.6	28.2
Additions	2.1	–	2.1	2.6	–	2.6
Disposals	(7.4)	–	(7.4)	(11.8)	–	(11.8)
At end of year	13.1	0.6	13.7	18.4	0.6	19.0
Aggregate amortisation						
At beginning of year	12.3	0.1	12.4	22.0	0.1	22.1
Charge for the year	2.5	–	2.5	2.1	–	2.1
Disposals	(7.4)	–	(7.4)	(11.8)	–	(11.8)
At end of year	7.4	0.1	7.5	12.3	0.1	12.4
Net book value at end of year	5.7	0.5	6.2	6.1	0.5	6.6
Net book value at beginning of year	6.1	0.5	6.6	5.6	0.5	6.1

Society

	Computer software 2009 £m	Total 2009 £m	Computer software 2008 £m	Total 2008 £m
Cost				
At beginning of year	11.4	11.4	20.6	20.6
Additions	2.1	2.1	2.6	2.6
Disposals	(0.5)	(0.5)	(11.8)	(11.8)
At end of year	13.0	13.0	11.4	11.4
Aggregate amortisation				
At beginning of year	5.6	5.6	16.0	16.0
Charge for the year	2.2	2.2	1.4	1.4
Disposals	(0.5)	(0.5)	(11.8)	(11.8)
At end of year	7.3	7.3	5.6	5.6
Net book value at end of year	5.7	5.7	5.8	5.8
Net book value at beginning of year	5.8	5.8	4.6	4.6

All amortisation charges in the year have been charged through 'Depreciation and amortisation'.

18. INVESTMENT PROPERTIES

	Group	
	2009	2008
	£m	£m
Cost or valuation		
At 1 April	**124.1**	114.2
Additions - acquisitions	**1.4**	6.5
Disposals	**(0.2)**	(2.2)
Net (losses)/gains from fair value adjustments	**(10.9)**	5.6
At 31 March	**114.4**	124.1

A National firm of specialist residential valuers, e.serv have carried out a valuation review of the residential investment properties held by West Bromwich Homes. This has taken the form of a physical 'drive-by' inspection of a sample of approximately 20% of the total portfolio. A further 20% sampling exercise has taken place, utilising an Automated Valuation Model provided by Messrs Hometrack. e.surv do not express an opinion on the validity of the AVM valuations, but note the results of this exercise in forming a view regarding an extrapolated valuation of the portfolio.

e.surv confirm that based on their sample valuations, they are satisfied that the revaluation for the whole portfolio as at 31 March 2009 is a fair reflection of the value of the portfolio.

If the land and building was carried at cost, the carrying amount would have been £86.4m (2008: £85.6m).

The Group leases investment properties to non-commercial individuals for a contract period of up to 12 months. The future minimum lease receipts under non-cancellable operating leases (all of which end within 12 months) are £1.6m (2008: £1.9m). The Group has not recognised any contingent rent in the period (2008: £nil).

19. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings			
	Freehold £m	Short Leasehold £m	Equipment, Fixtures, Fittings and Vehicles £m	Total £m
Cost or valuation				
At 1 April 2008	**15.6**	**1.0**	**10.0**	**26.6**
Additions	**–**	**–**	**0.4**	**0.4**
Revaluation	**(4.5)**	**–**	**–**	**(4.5)**
Disposals	**–**	**(0.1)**	**(3.2)**	**(3.3)**
At 31 March 2009	**11.1**	**0.9**	**7.2**	**19.2**
Accumulated Depreciation				
At 1 April 2008	**1.9**	**0.7**	**2.5**	**5.1**
Charge for the year	**0.4**	**0.2**	**2.5**	**3.1**
Revaluation	**(2.3)**	**–**	**–**	**(2.3)**
Elimination on disposals	**–**	**(0.1)**	**(3.1)**	**(3.2)**
At 31 March 2009	**–**	**0.8**	**1.9**	**2.7**
Net Book Value				
At 31 March 2009	**11.1**	**0.1**	**5.3**	**16.5**

Group

	Land and buildings			
	Freehold £m	Short Leasehold £m	Equipment, Fixtures, Fittings and Vehicles £m	Total £m
Cost or valuation				
At 1 April 2007	15.6	1.0	32.7	49.3
Additions	–	0.1	2.7	2.8
Disposals	–	(0.1)	(25.4)	(25.5)
At 31 March 2008	15.6	1.0	10.0	26.6
Accumulated Depreciation				
At 1 April 2007	1.3	0.8	24.9	27.0
Charge for the year	0.6	–	2.9	3.5
Elimination on disposals	–	(0.1)	(25.3)	(25.4)
At 31 March 2008	1.9	0.7	2.5	5.1
Net Book Value				
At 31 March 2008	13.7	0.3	7.5	21.5

19. PROPERTY, PLANT AND EQUIPMENT (continued)

Society

	Land and buildings			
	Freehold £m	Short Leasehold £m	Equipment, Fixtures, Fittings and Vehicles £m	Total £m
Cost or valuation				
At 1 April 2008	15.6	1.0	7.3	23.9
Additions	–	–	0.3	0.3
Revaluation	(4.5)	–	–	(4.5)
Disposals	–	(0.1)	(0.9)	(1.0)
At 31 March 2009	11.1	0.9	6.7	18.7
Depreciation				
At 1 April 2008	1.9	0.7	0.3	2.9
Charge for the year	0.4	0.2	2.3	2.9
Revaluation	(2.3)	–	–	(2.3)
Elimination on disposals	–	(0.1)	(0.9)	(1.0)
At 31 March 2009	–	0.8	1.7	2.5
Net Book Value				
At 31 March 2009	11.1	0.1	5.0	16.2

Society

	Land and buildings			
	Freehold £m	Short Leasehold £m	Equipment, Fixtures, Fittings and Vehicles £m	Total £m
Cost or valuation				
At 1 April 2007	15.6	1.0	30.4	47.0
Additions	–	0.1	2.3	2.4
Disposals	–	(0.1)	(25.4)	(25.5)
At 31 March 2008	15.6	1.0	7.3	23.9
Depreciation				
At 1 April 2007	1.3	0.8	23.0	25.1
Charge for the year	0.6	–	2.6	3.2
Elimination on disposals	–	(0.1)	(25.3)	(25.4)
At 31 March 2008	1.9	0.7	0.3	2.9
Net Book Value				
At 31 March 2008	13.7	0.3	7.0	21.0

The Group's freehold branch properties were revalued at 31 March 2009, by independent qualified valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors in the United Kingdom by Colliers CRE, a firm of independent Chartered Surveyors on an open market basis.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. If the land and building was carried at cost, the carrying amount would have been £4.0m (2008: £4.2m).

20. DEFERRED TAXES

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2008: 28%). The movement on the deferred tax account is as follows:

	Group		Society	
	2009	2008 restated	**2009**	2008 restated
	£m	£m	**£m**	£m
At 1 April	**3.1**	3.4	**8.1**	8.0
Income statement credit/(charge)	**6.1**	(2.7)	**(1.3)**	(2.3)
Amount recognised directly in equity	**5.3**	2.3	**5.3**	2.3
Adjustments in respect of prior years	**–**	0.1	**–**	0.1
At 31 March	**14.5**	3.1	**12.1**	8.1

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

	2009	2008 restated	**2009**	2008 restated
Deferred tax assets				
Pensions and other post retirement benefits	**0.5**	1.4	**0.4**	1.4
Accelerated tax depreciation	**0.5**	0.6	**0.3**	0.4
Available for sale assets	**7.0**	2.0	**7.0**	2.0
Carried forward tax losses	**7.3**	–	**1.4**	–
Other temporary differences	**7.6**	7.4	**6.3**	5.7
	22.9	11.4	**15.4**	9.5
Deferred tax liabilities				
Property revaluations	**(6.0)**	(8.3)	**(0.9)**	(1.4)
Other temporary differences	**(2.4)**	–	**(2.4)**	–
	(8.4)	(8.3)	**(3.3)**	(1.4)

The deferred tax credit/(charge) in the income statement comprises the following temporary differences.

	2009	2008 restated	**2009**	2008 restated
	£m	£m	**£m**	£m
Accelerated tax depreciation	**(0.1)**	–	**(0.1)**	(0.1)
Pensions and other post retirement benefits	**(0.8)**	(0.5)	**(0.8)**	(0.5)
Other provisions	**0.3**	(2.1)	**0.7**	(1.6)
Carried forward tax losses	**4.9**	–	**(1.1)**	–
Property valuations	**1.8**	–	**–**	–
	6.1	(2.6)	**(1.3)**	(2.2)

Deferred income tax assets are recognised for tax loss carry-forwards only to the extent that realisation of the related tax benefit is probable.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority.

The deferred tax assets and liabilities closing balances have been calculated at 28% in accordance with IAS 12.

21. TRADE AND OTHER RECEIVABLES

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Prepayments and accrued income	**5.0**	2.1	**5.0**	2.0
Other	**11.1**	7.7	**6.0**	3.4
	16.1	9.8	**11.0**	5.4

22. SHARES

	Group & Society	
	2009	2008
	£m	£m
Held by individuals	**6,539.9**	5,522.9
Other shares	**1.4**	1.0
	6,541.3	5,523.9

23. DEBT SECURITIES IN ISSUE

	Average interest rate (%)		Group	
	2009	2008	**2009 £m**	2008 £m
EURO medium term notes	**2.5%**	6.0%	**55.8**	47.5
GBP medium term notes	**2.7%**	5.9%	**3.0**	3.0
Certificates of deposit	**2.9%**	5.9%	**75.0**	526.5
Other debt securities	**1.3%**	–	**470.2**	–
Non-recourse finance on securitised advances	**2.3%**	6.3%	**388.6**	865.8
			992.6	1,442.8

	Average interest rate (%)		Society	
	2009	2008	**2009 £m**	2008 £m
EURO medium term notes	**2.5%**	6.0%	**55.8**	47.5
GBP medium term notes	**2.7%**	5.9%	**3.0**	3.0
Certificates of deposit	**2.9%**	5.9%	**75.0**	526.5
Other debt securities	**1.3%**	–	**470.2**	–
			604.0	577.0

The Non-recourse finance comprises mortgage backed floating rate notes (‘the Notes’) secured over a portfolio of mortgage loans secured by first charges over residential and commercial properties in the United Kingdom (see note 13). Prior to redemption of the Notes on the final interest payment date, the Notes will be subject to mandatory and/or optional redemption in certain circumstances, on each interest payment date. For details of assets held at fair value through profit and loss see note 29.

24. SUBORDINATED DEBT

	Interest rate	Group and Society	
	%	**2009 £m**	2008 £m
Subordinated notes			
Floating rate subordinated loan 2013	n/a	**5.3**	5.1
Fixed rate notes due 2013	7.925	**7.9**	7.8
Fixed rate notes due 2013	7.956	**7.7**	7.8
Fixed rate notes due 2019	6.733	**10.2**	10.3
Fixed rate notes due 2036	8.030	**10.7**	10.7
Fixed rate notes due 2034	6.960	**5.6**	5.6
Fixed rate notes due 2035	6.960	**5.6**	5.6
Fixed rate notes due 2031	6.410	**16.0**	16.0
Fixed rate notes due 2031	6.320	**8.0**	8.0
Floating rate subordinated loan 2014	n/a	**10.2**	10.1
Fixed rate notes due 2025	5.660	**25.6**	25.2
Fixed rate notes due 2017	6.196	**51.3**	50.4
Fixed rate notes due 2017	6.641	**25.9**	25.5
		190.0	188.1

All notes are denominated in Sterling.

The interest rate on both the floating rate subordinated loans 2013 and 2014 is reset half yearly, at premia of respectively 1.25% and 1.60% over LIBOR. The rights of repayment of the holders of subordinated debt are subordinated to the claims of depositors, all creditors and members holding shares in the Society, as regards the principal of their shares and interest due to them.

25. TRADE AND OTHER PAYABLES

	Group		Society	
	2009 **£m**	2008 £m	**2009** **£m**	2008 £m
Accruals	**10.1**	7.5	**8.8**	7.5
Other creditors	**8.4**	18.6	**4.2**	7.2
Income tax	**6.6**	11.8	**6.6**	11.8
Amounts due to subsidiary undertakings	**–**	–	**0.3**	0.3
	25.1	37.9	**19.9**	26.8

26. PROVISIONS FOR LIABILITIES

	2009			2008		
	FSCS £m	**Regulatory £m**	**Total £m**	FSCS £m	Regulatory £m	Total £m
Group and Society						
At 1 April	**–**	**0.8**	**0.8**	–	3.3	3.3
Utilised in the year	**–**	**–**	**–**	–	(0.3)	(0.3)
Charge/(release) for the year	**12.2**	**(0.8)**	**11.4**	–	(2.2)	(2.2)
At 31 March	**12.2**	**–**	**12.2**	–	0.8	0.8

Regulatory

Provisions have been made in respect of various potential customer compensation claims. The main area of potential claim is endowment policies sold as repayment vehicles for mortgage borrowings. Against a background of falling investment returns, claims are being received from some members who claim they did not appreciate the risk that these policies may not be sufficient to repay the mortgage. Claims are investigated on an individual basis and, in some cases, compensation payments are made. In the last year there has been a significant reduction in these claims and the provision has been fully released accordingly.

Financial Services Compensation Scheme ('FSCS')

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

We understand that the FSCS has met, or will meet, the claims by way of loans received from HM Treasury. The terms of these loans are interest only for the first three years, and the FSCS will seek to recover the interest cost, together with ongoing management expenses, through levies on member firms over this period. Subsequently, should there be insufficient funds from the realisation of the failed banks' assets to fully extinguish the FSCS' loans from HM Treasury, this may result in the FSCS raising a compensation levy on member firms.

The Society has recognised, in this year's results, a provision for FSCS management expenses and levies of £12.2m, covering the scheme year 2008/09 and next three years. This amount has been calculated on the basis of the Society's current share of protected deposits taking into account the FSA's estimate of total management expense levies for the scheme years 2008/09 and 2009/10 and assuming that levies for subsequent years are at similar levels. The amounts provided do not take any account of any future compensation levies which may be payable should the FSCS fail to recover sufficient funds to repay its loans, as any such amounts can not be reliably estimated.

At the date of signing these accounts there remains uncertainty over the amounts provided: given that the scheme year 2008/09 runs to 31 March 2009 and scheme year 2009/10 runs to 31 March 2010, additional levies for these scheme years may be raised up to those dates. The amounts above do not take account of any compensation levies which may arise from any ultimate payout on claims.

27. RETIREMENT BENEFIT OBLIGATIONS

Amounts recognised in the balance sheet:

	Group and Society				
	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
Defined benefit pension scheme	**1.6**	5.1	4.5	4.9	4.0

The Society operates a defined benefit pension scheme with pension benefits funded over employees' periods of service, and a small unfunded arrangement.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by IAS19, actuarial gains and losses are recognised outside profit or loss and presented in the statement of recognised income and expense. The liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets.

Defined Benefit Plans

The Society operates a 'defined benefit' pension scheme which provides benefits for some of the employees of the Society. The assets of the Scheme are held in a Trust separate from the Society. In addition, the Society has some unregistered arrangements in place in respect of former directors. The financial effect of these arrangements is included in this note.

The results of a formal actuarial valuation as at 31 March 2007 carried about by the appointed actuary to the scheme were updated to the accounting date by an independent qualified actuary in accordance with IAS19.

During the year the Society introduced a salary sacrifice arrangement – under this arrangement the Society makes pension contributions to the SRS for members who have chosen to participate. The Society has decided to close the Scheme to the future accrual of benefits and is currently undertaking consultation with members to this effect. The figures shown below reflect that all current active members will become entitled to deferred pensions in the Scheme.

The expected rate of return on assets as at 31 March 2009 was 6.0% pa (2007/08: 6.5%) net of an allowance of 0.5% pa for expenses (2008: 0.3% pa). This rate is derived by taking the weighted average of the long term expected rate of return that for each of the asset classes that the Scheme invests in, based on the allocation to each asset class as at 31 March 2009. The estimated amount of Society contributions expected to be paid to the Scheme during 2009/10 is £1.6m by way of regular contributions and £1.0m under funding plans agreed with Trustees of the Scheme to rectify the current funding deficit, giving total projected contributions of £3.1m (2007/08: £3.7m actual).

The key assumptions used by the actuary in the updated calculation were:	Group and Society				
	2009	2008	2007	2006	2005
Rate of increase in salaries	**–**	5.50%	4.20%	4.00%	3.75%
Pension increases in payment (5% LPI)	**3.20%**	3.40%	3.00%	2.80%	2.75%
Pension increases in payment (2.5% LPI)	**2.30%**	2.30%	2.20%	2.10%	–
Discount rate	**7.00%**	6.30%	5.30%	5.00%	5.40%
Expected return on assets	**6.00%**	6.50%	6.90%	6.30%	6.20%
Life expectancy of male aged 65 at balance sheet date	**22.7**	22.6	21.8	21.8	19.4
Life expectancy of female aged 65 at balance sheet date	**24.6**	24.5	24.7	24.7	–
Life expectancy of male aged 65 in 2025	**24.3**	–	–	–	–
Life expectancy of female aged 65 in 2025	**25.6**	–	–	–	–

As at 31 March 2009, the post retirement mortality is assumed to be in line with 95% of the 'PNA00' mortality tables allowing for future improvements according to the medium cohort projection scale with a minimum improvement rate of 1.0% p.a. for males and 0.5% p.a. for females.

27. RETIREMENT BENEFIT OBLIGATIONS (continued)

The amounts recognised in the balance sheet are determined as follows:

	Group and Society				
	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of funded obligations	**49.1**	63.0	62.1	57.1	45.8
Present value of unfunded obligations	**0.6**	0.6	0.7	1.7	0.5
	49.7	63.6	62.8	58.8	46.3
Fair value of Scheme assets	**(48.1)**	(58.5)	(58.3)	(53.9)	(42.3)
Liability in the balance sheet	**1.6**	5.1	4.5	4.9	4.0

The amounts recognised in the income statement are as follows:

	Group and Society			
	Projected 2010 £m	**Actual 2009 £m**	Actual 2008 £m	Actual 2007 £m
Current service costs	0.4	**2.1**	1.6	1.7
Interest cost	3.4	**4.0**	3.4	3.0
Expected return on plan assets	(2.8)	**(3.8)**	(4.1)	(3.5)
Past service cost	–	**0.2**	0.1	1.1
(Gains) on curtailments and settlements	–	**(8.0)**	–	(1.0)
Total cost	1.0	**(5.5)**	1.0	1.3

Current and past service costs and gains on curtailments and settlement are shown in administrative expenses whilst interest cost and expected return are within 'Other operating income'. The curtailment gain arising in the current year reflects primarily the impact of the Society's decision to close the Scheme to future benefit accrual. The actual return on Scheme assets was a loss of £11.9m (2008: loss of £2.2m).

Change in benefit obligations	Group and Society		
	2009 £m	2008 £m	2007 £m
Benefit obligations at beginning of year	**63.6**	62.8	58.8
Current service cost	**2.1**	1.6	1.7
Interest cost	**4.0**	3.4	3.0
Employee contributions	**–**	0.7	0.7
Actuarial (gains)/losses	**(10.0)**	(3.5)	0.6
Benefits paid	**(2.2)**	(1.5)	(2.1)
Past service costs	**0.2**	0.1	1.1
Curtailments and settlements	**(8.0)**	–	(1.0)
Benefit obligations at the end of the year	**49.7**	63.6	62.8

Change in scheme assets	Group and Society		
	2009 £m	2008 £m	2007 £m
Fair value of scheme assets at beginning of year	**58.5**	58.3	53.9
Expected return on scheme assets	**3.8**	4.1	3.5
Actuarial (losses)	**(15.7)**	(6.3)	(1.2)
Contribution by employer	**3.7**	3.2	3.5
Employee contributions	**–**	0.7	0.7
Benefits paid	**(2.2)**	(1.5)	(2.1)
Fair value of scheme assets at end of year	**48.1**	58.5	58.3

The amount recognised outside profit or loss in the Statement of Recognised Income and Expense (SORIE) for 2008/09 is an actuarial loss of £5.7 million (2007/08: Loss of £2.8 million). The cumulative amount recognised outside profit or loss at 31 March 2009 is an actuarial loss of £13.3 million.

History of experience gains and losses	**2009**	**2008**	**2007**	**2006**	**2005**
Experience gains and (losses) on scheme assets:					
amount (£million)	**(15.7)**	(6.3)	(1.2)	7.8	1.2
percentage of scheme assets	**(33%)**	(11%)	(2%)	14%	3%
Experience gains and (losses) on scheme liabilities:					
amount (£million)	**–**	(0.7)	(4.3)	–	(0.7)
percentage of scheme liabilities	**0%**	(1%)	(7%)	0%	(2%)

27. RETIREMENT BENEFIT OBLIGATIONS (continued)

Scheme assets and liabilities

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

	Long-term rate of return expected 2009 %	**Value 2009 £m**	Long-term rate of return expected 2008 %	Value 2008 £m	Long-term rate of return expected 2007 %	Value 2007 £m
Equities	**8.0%**	**24.7**	7.7%	33.9	7.8%	39.4
Corporate Bonds	**5.5%**	**1.9**	–	–	5.0%	10.6
Gilts	**4.2%**	**15.6**	4.5%	18.9	4.5%	6.3
Tactical Asset Allocation	**9.8%**	**1.3**	10.0%	1.9	10.9%	2.1
Fund of Hedge Fund	**–**	**–**	6.2%	2.1	–	–
Active Currency	**9.8%**	**1.1**	12.0%	1.5	–	–
Cash and other assets/(liabilities)	**4.2%**	**3.5**	4.5%	0.2	4.5%	(0.1)
		48.1		58.5		58.3

Provisional asset information at bid value was supplied by the investment managers as at 31 March 2009. The unaudited value of the invested assets at this date is £48.1m.

	£m
Barclays Global Investors (Equity Portfolio)	24.7
Barclays Global Investors (Bond Portfolio)	17.5
Barclays Global Investors (Tactical Asset Allocation portfolio)	1.3
Record Active Currency Fund	1.1
Total invested assets	44.6
Cash and net current assets	3.5
Total assets	**48.1**

Stakeholder Scheme. The total cost for the year of the stakeholder plan was £0.3m (2007/08: £0.3m) and at the end of the year there were no outstanding contributions.

For the year to 31st March 2009 staff could continue to contribute between 5% and 9% with the Society contributing on a sliding scale between 5% and 7%.

28. SUBSCRIBED CAPITAL

	Interest rate %	Group and Society	
		2009	2008 restated
		£m	£m
Permanent Interest Bearing Shares	6.15%	**74.9**	74.9
		74.9	74.9

The interest rate on the permanent interest bearing shares (PIBS) is paid in half yearly instalments. The shares have no specified final maturity however the Society may elect to repay all, but not some only, of the PIBS on 5 April 2021 or on any Interest Payment Date thereafter.

In a winding up or dissolution of the Society the claims of the holders of PIBS would rank behind all other creditors of the Society and the claims of members holding shares as to principal and interest. The holders of PIBS are not entitled to any share in any final surplus upon winding up or final dissolution of the Society.

29. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

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

Group

	2009	2008
	£m	£m
Financial assets as at fair value through profit or loss:		
Loans fully secured on land		
Carrying value at 31 March	**148.0**	153.4
Net gains in the year (included in 'Interest expense and similar charges')	**12.5**	0.1
Financial liabilities as at fair value through profit or loss:		
Non-recourse finance on securitised advances		
Carrying value at 31 March	**137.2**	154.6
Net gains in the year (included in 'Interest expense and similar charges')	**–**	–
Derivative financial instruments		
Carrying value at 31 March	**(10.8)**	1.4
Net (losses)/gains in the year (including in 'Interest expense and similar charges')	**(12.2)**	0.6

30. FINANCIAL COMMITMENTS

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
a. Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	**0.4**	–	**0.4**	–

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
b. Leasing commitments				
The total of future minimum lease payments under non-cancellable operating leases relating to land and buildings were as follows:				
Leases which expire				
Within one year	**0.1**	0.1	**0.1**	0.1
Later than one year and not later than five years	**0.7**	0.9	**0.4**	0.9
After five years	**2.9**	3.5	**3.2**	3.5
	3.7	4.5	**3.7**	4.5

	Group		Society	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
c. Loan commitments				
Undrawn loan facilities	**2.7**	181.3	**1.8**	29.7

31. RESERVES

a. Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

	Group and Society	
	2009	2008
	£m	£m
At 1 April	**(5.3)**	(0.8)
Net losses from changes in fair value	**(17.6)**	(6.2)
Taxation	**5.0**	1.7
At 31 March	**(17.9)**	(5.3)

b. Revaluation reserve

The revaluation reserve relates to the difference between the fair value of the property, plant and equipment and its historical cost.

	Group and Society	
	2009	2008
	£m	£m
At 1 April	**6.1**	6.1
Loss on revaluation of properties net of deferred tax	**(1.5)**	–
At 31 March	**4.6**	6.1

31. RESERVES (continued)

	Group		Society	
	2009	2008 restated	**2009**	2008 restated
	£m	£m	**£m**	£m
c. General reserves				
At 1 April as previously stated	**326.3**	301.7	**264.1**	244.8
Prior year adjustment (see note 1)	**–**	(3.1)	**–**	(3.1)
At 1 April as restated	**326.3**	298.6	**264.1**	241.7
(Loss)/Profit for the financial year	**(39.3)**	33.1	**10.8**	27.8
Pension fund actuarial losses	**(5.7)**	(2.8)	**(5.7)**	(2.8)
Interest in subscribed capital	**(4.6)**	(4.6)	**(4.6)**	(4.6)
Taxation	**1.6**	2.0	**1.6**	2.0
At 31 March	**278.3**	326.3	**266.2**	264.1

d. Cash flow reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

	Group and Society	
	2009	2008
	£m	£m
At 1 April	**0.2**	(0.1)
Total recognised gain and expense	**0.1**	0.4
Movement in deferred tax	**–**	(0.1)
At 31 March	**0.3**	0.2

32. RELATED PARTY TRANSACTIONS

i) Subsidiary, Parent and Ultimate Controlling Party

The Subsidiaries of the Society (The ultimate controlling party) are detailed in Note 15 of these accounts.

ii) Key Management Personnel Compensation

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

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

Key management personnel, which comprises Group Directors and their close family members have undertaken the following transactions with the West Bromwich Building Society and Group.

	No. of key management personnel 2009	**Amount in respect of key management personnel and their close family members 2009 £000**	**No. of key management personnel 2008**	**Amount in respect of key management personnel and their close family members 2008 £000**
Mortgage balances	**4**	**752**	4	1,157
Interest	**4**	**45**	4	50

Mortgages are made to key management personnel and members of their close family at normal commercial terms and no specific provisions are held against them. Included within the 2009 figures above is a £176k (2008: £180k) mortgage balance relating to a close family member who is not classified as a connected person under the Building Society Act.

A register is maintained by the Society containing details of loans and transactions and arrangements made between the Society or its subsidiary undertakings and Directors of the Society or persons connected with Directors of the Society. The register will be available for inspection by members at the Annual General Meeting and during normal office hours at the Society's Principal Office (374 High Street, West Bromwich) during the period 15 days prior to the Meeting.

There were no loans outstanding to Directors and their connected persons as defined under the Building Societies Act 1986.

iv) Contributions to pension Schemes

During the year, the Group and Society paid contributions of £3.1m (2008: £3.4m) and £3.1m (2008: £3.4m) respectively to defined benefit pension schemes, which are classified as related parties.

32. RELATED PARTY TRANSACTIONS (continued)

v) Transactions with group companies

	2009 Interest paid to WBBS £m	2009 Admin fee paid to Society £m	2008 Interest paid to WBBS £m	2008 Admin fee paid to Society £m
West Bromwich Mortgage Company Limited	**89.1**	**–**	106.8	–
West Bromwich Commercial Limited	**57.9**	**–**	70.0	–
WBBS Computer Finance Limited	**–**	**(0.4)**	–	(0.9)
West Bromwich Homes Limited	**5.3**	**0.1**	5.0	0.2
Insignia Finance Limited	**1.6**	**–**	0.1	–
	153.9	**(0.3)**	181.9	(0.7)

At the year end, the following balances were outstanding with group companies:

	2009 Loans owed by Subsidiaries £m	2009 Loans owed to Subsidiaries £m	2008 Loans owed by Subsidiaries £m	2008 Loans owed to Subsidiaries £m
West Bromwich Mortgage Company Limited	**1,712.5**	**–**	2,251.8	–
West Bromwich Commercial Limited	**1,035.5**	**–**	1,218.4	–
MortgageForce Limited	**2.2**	**–**	2.2	–
WBBS Computer Finance Limited	**–**	**–**	0.2	–
CL Mortgages Limited	**–**	**–**	–	–
Governangle Limited – dormant	**–**	**0.2**	–	0.2
Governafter Limited – dormant	**–**	**0.1**	–	0.1
Insync Financial Planning Limited	**1.3**	**–**	1.0	–
West Bromwich Homes Limited	**91.6**	**–**	88.8	–
Insignia Finance Limited	**55.9**	**–**	17.0	–
	2,899.0	**0.3**	3,579.4	0.3

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

33. BUSINESS SEGMENTS

The Group is organised into three main business segments:

- Retail lending – incorporating Core Society lending, Mortgage Company lending, second charge lending, private customer savings, financial services; and
- Commercial – incorporating commercial lending; and
- Property – Property rental

Transactions between business segments are on normal commercial terms and conditions.

Funds are normally allocated between segments, resulting in funding cost transfers in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

	Retail	Commercial	Property	Eliminations	Group
Year ended 31 March 2009	£m	£m	£m	£m	£m
Income					
Interest receivable and similar income	**605.9**	**104.6**	**–**	**(201.8)**	**508.7**
Interest payable and similar charges	**(542.6)**	**(95.6)**	**(5.3)**	**201.8**	**(441.7)**
Fees and commissions receivable	**17.0**	**0.3**	**–**	**–**	**17.3**
Fees and commissions payable	**(4.7)**	**–**	**–**	**–**	**(4.7)**
Other operating income	**30.4**	**(18.5)**	**3.9**	**(1.3)**	**14.5**
Total operating income	**106.0**	**(9.2)**	**(1.4)**	**(1.3)**	**94.1**
Wages and salaries	**(28.3)**	**(1.1)**	**(0.2)**	**–**	**(29.6)**
Depreciation and amortisation	**(5.6)**	**–**	**–**	**–**	**(5.6)**
Other admin expenses	**(19.4)**	**(2.0)**	**(0.1)**	**1.3**	**(20.2)**
Revaluation of investment properties	**–**	**–**	**(10.9)**	**–**	**(10.9)**
Impairment charge for the year	**(16.5)**	**(48.7)**	**–**	**–**	**(65.2)**
Provision for liabilities	**(11.4)**	**–**	**–**	**–**	**(11.4)**
Total expenses	**(81.2)**	**(51.8)**	**(11.2)**	**1.3**	**(142.9)**
Profit/(Loss) before tax	**24.8**	**(61.0)**	**(12.6)**	**–**	**(48.8)**
Total Assets	**11,567.3**	**1,610.2**	**118.1**	**(4,100.1)**	**9,195.5**
Total Liabilities	**11,222.6**	**1,635.9**	**96.2**	**(4,099.4)**	**8,855.3**
Capital Expenditure	**2.5**	**–**	**1.4**	**–**	**3.9**

	Retail	Commercial	Property	Eliminations	Group
Year ended 31 March 2008 – restated	£m	£m	£m	£m	£m
Income					
Interest receivable and similar income	607.1	113.5	–	(182.0)	538.6
Interest payable and similar charges	(539.4)	(99.0)	(5.0)	182.0	(461.4)
Fees and commissions receivable	20.1	–	–	–	20.1
Fees and commissions payable	(3.2)	–	–	–	(3.2)
Other operating income	11.2	–	3.8	(5.7)	9.3
Total operating income	95.8	14.5	(1.2)	(5.7)	103.4
Wages and salaries	(33.4)	(1.4)	–	–	(34.8)
Depreciation and amortisation	(5.6)	–	–	–	(5.6)
Other admin expenses	(21.7)	(0.5)	(0.4)	5.7	(16.9)
Revaluation of investment properties	–	–	5.9	–	5.9
Impairment charge for the year	(5.8)	(0.6)	–	–	(6.4)
Provision for liabilities	2.2	–	–	–	2.2
Total expenses	(64.3)	(2.5)	5.5	5.7	(55.6)
Profit before tax	31.5	12.0	4.3	–	47.8
Total Assets	11,372.0	1,649.5	125.8	(3,545.2)	9,602.1
Total Liabilities	11,023.4	1,622.1	94.7	(3,540.3)	9,199.9
Capital Expenditure	5.4	–	6.5	–	11.9

There is no requirement for the Group to report using a secondary reporting segment, as the Group's risks and returns are not materially affected by geographical segmentation.

34. FINANCIAL EFFECTS OF PRIOR YEAR ADJUSTMENT

As stated in note 1 the Group has made a prior year adjustment in respect of the reclassification of its Subscribed Capital. The financial effect of this is set out below.

	Group			Society		
	As previously reported	Adjusts	As restated	As previously reported	Adjusts	As restated
	£m	£m	£m	£m	£m	£m
Year ended 31 March 2008						
Balance Sheet						
Deferred tax asset	10.8	0.6	11.4	8.9	0.6	9.5
Total assets	9,601.5	0.6	9,602.1	8,651.0	0.6	8,651.6
Trade and other payables	35.7	2.2	37.9	24.6	2.2	26.8
Total liabilities	9,272.6	(72.7)	9,199.9	8,384.3	(72.7)	8,311.6
General reserves	327.9	(1.6)	326.3	265.7	(1.6)	264.1
Total equity attributable to members	328.9	73.3	402.2	266.7	73.3	340.0
Income statement						
Interest expense and similar charges	(466.0)	4.6	(461.4)	(405.4)	4.6	(400.8)
Net interest receivable	72.6	4.6	77.2	57.0	4.6	61.6
Other operating income	9.6	2.1	11.7	6.1	2.1	8.2
Total operating income	96.7	6.7	103.4	77.4	6.7	84.1
Operating profit before impairments, provisions and revaluation gains or losses	39.4	6.7	46.1	30.2	6.7	36.9
Profit before tax	41.1	6.7	47.8	32.2	6.7	38.9
Tax credit/(expense)	(12.8)	(1.9)	(14.7)	(9.2)	(1.9)	(11.1)
Profit for the year attributable to members of the Society	28.3	4.8	33.1	23.0	4.8	27.8

35. POST BALANCE SHEET EVENT

In consultation with the FSA, the Society has reached agreement with holders of its subordinated debt to exchange all the £182.5m of the Society's tier 2 subordinated debt for an equal amount of Profit Participating Deferred Shares (PPDS), a new form of capital for building societies, which will count as core tier 1 capital (the Capital Exchange).

Following the Capital Exchange, which has received FSA approval and is due to complete by the end of July, some 82% of the Society's capital will be core tier 1, so enabling the Society to demonstrate resilience in the face of stressed economic conditions. On a pro-forma basis, the Society's core tier 1 ratio will increase from 6.8% to 11.6%, amongst, we believe, the highest in the sector.

The PPDS will be entitled to receive a dividend, at the discretion of the Society, of up to 25% of the Society's post-tax profits in the future (calculated prior to payment of the PPDS dividend).

As a result of the Capital Exchange and a desire to achieve yield equivalence between the holders of PPDS and the Society's permanent interest bearing shares (PIBS), the Society will implement the following policy in relation to the interest payments on the Society's existing PIBS:

- With respect to the interest payment date of 5 October 2009, to pay an interest payment which reflects the level of accrued interest (at an annualised rate of 6.15%) from 5 April 2009 to the date of the completion of the Capital Exchange plus, with respect to the period from completion to 5 October 2009, such amount as represents, when annualised, up to 1.5% of the outstanding principal amount of the PIBS;

- With respect to the interest payment date of 5 April 2010, to pay an interest payment which represents, when annualised, up to 1.5% of the outstanding principal amount of the PIBS; and

- With respect to subsequent interest payments, as a condition of the PPDS, the Society has undertaken to pay an amount which, when annualised, represents the lower of: 6.15% of the outstanding principal amount of the PIBS and the dividend yield attributable to the PPDS with respect to the prior financial year ending 31 March.

ANNUAL BUSINESS STATEMENT

at 31 March 2009

1 Statutory percentages

	2009 %	Statutory Limit %
Lending limit	**18.7**	25.0
Funding limit	**19.3**	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 provisions for bad and doubtful debts less liquid assets, non-recourse finance, investment properties, intangible assets and property, plant and equipment as shown in the Group Accounts.

The Funding limit measures the proportions of shares and borrowings not in the form of shares held by individuals excluding non-recourse finance. The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2 Other percentages

	2009 %	2008 %
As a percentage of shares and borrowings:		
Gross Capital	**6.54**	7.32
Free Capital	**5.05**	5.41
Liquid assets	**24.95**	26.17
(Loss)/Profit for the financial year as a percentage of mean total assets	**(0.42)**	0.37
Management expenses as a percentage of mean total assets	**0.59**	0.64

The above percentages have been prepared from the Group's accounts and in particular:

- 'Shares and Borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue excluding non-recourse finance, in each case including accrued interest.
- 'Gross Capital' represents the aggregate of general reserves, available-for-sale reserve, revaluation reserve, cash flow reserve, subscribed capital and subordinated liabilities.
- 'Free Capital' represents the aggregate of gross capital and collective impairment provisions for bad and doubtful debts less intangible assets, investment properties and property, plant and equipment.
- 'Mean Total Assets' represents 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' represents the aggregate of administrative expenses, depreciation and amortisation.

DIRECTORS' DETAILS

at 31 March 2009

Brian Woods-Scawen (Chairman) – D.O.B. 02/11/1946

Committee on Standards in Public Life
Coventry, Solihull and Warwickshire Partnership
Culture West Midlands
Department of Trade and Industry
Government Office of West Midlands
Martineau Johnson
Warwick University (Treasurer)
West Bromwich Building Society

John Bywater – D.O.B. 18/04/1947

British Waterways Board
Caddick Developments Limited
Workspace Group plc
West Bromwich Building Society

Gary T Cowdrill (Group Finance Director) – D.O.B. 06/12/1955

WBBS Computer Finance Limited
WBBS Computer Services Limited
West Bromwich Building Society
West Bromwich Commercial Limited
West Bromwich Estate Agency Services Limited
West Bromwich Homes Limited

David Huw Davies – D.O.B. 27/02/1956

Annington Wates (Cove) Limited
10 St Bride Street Limited
Barratt Wates (Horley) Limited
Brooks and Rivers Limited
The Burgess Hill Land Company Limited
Liberty Park Management Limited
Linden Wates (Ridgewood) Limited
Needspace? Limited
Ormonde Place Management Company Limited
QED Education Environments Limited
QED (KMC) Limited
QED (KMC) Holdings Limited
QED (Slough) Holdings Limited
QED (Slough) Limited
Relocation and Inventory Services Limited
Sandwhite Limited
Stageselect Limited
Steadfast Management Limited
Third Wates Investments Limited
UPlug Limited
Wates Lancewood Estates Limited
Wates Limited
Wates Linden (Cuckfield) Limited
Wates Linden BR1 Limited
Wates Developments Limited
Wates Amenity Lands Limited
Wates Second Land Limited
Wates Financial Services Limited
Wates Interiors Limited
Wates Letting and Management Services Limited
Wates Maintenance Services Limited
Wates PFI Investments Limited
Wates Staff Trustees Limited
Wates Group Limited
Wates Group Properties Limited
Wates Group Services Limited
Wates Built Homes Limited
Wates Built Homes (Blakes) Limited
WBH (Financial Services) Limited
Wates Built Homes (London) Limited
Wates Built Homes (Retirement) Limited
Wates Built Homes (Southern) Limited
Wates Construction Limited
Wates Estate Agency Services Limited
Wates Homes (Bracknell) Limited
Wates Homes (Cambridge) Limited
Wates Homes (Chichester) Limited
Wates Homes (Oakley) Limited
Wates Homes (Odiham) Limited
Wates Homes (Wallingford) Limited
Wates Homes (Warsash) Limited
WBBS (SRS) Limited
Woodside Lands Limited
Woodside Lands Management Limited
Woodside Lands Estates Limited
Wates PFI Investments (QED) Limited
Wates PFI Investments (Projects) Limited
Wates Regeneration (South Acton) Limited
Wates Regeneration (Coventry) Limited
Wates Regeneration (Tavy Bridge) Limited
Westcity (QEC) Limited
Westcity Wates Property Development Limited
Westend Quay Limited
WW (Kensington) Limited
WW (Paddington) Limited
West Bromwich Building Society

Edwin Hucks (Senior Independent Director) – D.O.B. 07/06/1944

West Bromwich Building Society

Lesley James – D.O.B. 07/04/1949

WBBS (SRS) Limited
West Bromwich Building Society

DIRECTORS' DETAILS (continued)

at 31 March 2009

Bharat C Shah
– D.O.B. 08/12/1953

Audit Commission (Commissioner)
BCS Business Consultant Limited
Firstglaze Limited
Fusiontint Limited
Glenloom Limited
Mileorder Limited
Questoak Limited
Stockloom Limited
21st Century Legacy (Treasurer)
WBBS (SRS) Limited
West Bromwich Building Society

Robert Sharpe (appointed as Chief Executive 14 October 2008) – D.O.B. 14/02/1949

Barclays Pension Fund Trustees Limited
Marketing Matters Limited
Marketing Matters Holdings Limited
Robert Sharpe Consultancy Limited
Vaultex (UK) Limited
West Bromwich Building Society

Roger D Smith (Group Commercial Director)
– D.O.B. 28/02/1960

Autumn Mortgages Limited
Central Processing Limited
CL Mortgages Limited
Mortgage Force Limited
West Bromwich Building Society
West Bromwich Commercial Limited
West Bromwich Financial Services Limited
West Bromwich Homes Limited
West Bromwich Mortgage Company Limited
Wow! Mortgages & Loans Limited

Mark Stansfeld
– D.O.B. 23/03/1960

O_2 (UK) Limited
Mark Stansfeld Consultancy
West Bromwich Building Society

Service Contracts

For details of the Executive Directors' service contracts, see the Directors Remuneration Report on pages 24 to 27.

OFFICERS

Divisional Directors

Paul Field, CMS
Divisional Director, Operations

Stuart J Hislop
Treasurer

David T Johnston, MCIM
Divisional Director, Retail

Andrew R Jones, BSc (Hons), FCIB, FCIS
Group Secretary and Divisional Director, Risk

Thomas M Lynch, MA, ACA
Divisional Director, Finance

Peter Southcott
Divisional Director, Credit Management

Other Executives

David Barton, BSc (Hons), ACIB
Head of Structured Finance

Peter Collingridge, BSc (Hons), MEng
Head of IT

Manjit Hayre
Head of Credit Risk

Christopher J Miller, AIS&MM
Head of Commercial Lending

WEST BROMWICH
BUILDING SOCIETY

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SGS-COC-003585
© 1996 Forest Stewardship Council
FSC

PRINCIPAL OFFICE: 374 HIGH STREET, WEST BROMWICH, WEST MIDLANDS B70 8LR.

REGISTERED NUMBER: 651B