the West Brom

Annual Report and Accounts

Year Ended 31 March 2011

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Contents

Key highlights from the 2010/11 financial year include:

- The Core Tier 1 ratio strengthened from 11.8% to 12.8%, one of the strongest amongst UK banks and building societies.
- Saving members benefited from consistent market-leading rates, with savers earning, on average, 1.2% higher relative to Bank Rate than two years ago.
- Retail savings inflows of £1.9bn, attracting some 29,500 new savers, with residential mortgages covered 1.22 times by retail deposits.
- The net interest margin increased from 0.30% to 0.43%.
- A reduction in credit impairment charges, down 18%.
- Liquidity balances maintained at a comfortable surplus above the more rigorous requirements established for banks and building societies since the credit crisis.
- A marked improvement in the Group's performance with a further reduction in the post tax loss for the financial year to £10.4m (2009/10: £17.0m).
- A return to profit at the operating level, at £9.3m.

"The Society's **progress** in delivering its Back to Basics approach and the measures adopted in recent years to support that **success** have created a **firm foundation** for the future."

Chairman's Statement


Mark Nicholls

Looking back on my first full year as Chairman of the West Brom, I can reflect on a period of continued progress for the Society as our Back to Basics strategy starts to bear fruit. Our improved financial results and the series of initiatives, as set out in the Chief Executive's Review, support your Board's increased confidence for the future.

Back to Basics – another year of progress

As expected the Society recorded a loss, but this was significantly reduced from the previous year. More encouragingly, at £9.3m, we have seen profits return at the operating level.

Our capital position is strong, with the Core Tier 1 ratio increasing to 12.8%, whilst the Society also continued to hold high levels of liquidity – both of these actions ensure we remain focused on providing a safe place for our members to invest.

Furthermore, we continue to make progress in managing the exit from non-core businesses. This is reflected particularly in the reduction in new impairment provisions for potential credit losses in our commercial loan portfolio.

These improvements are clear evidence of the success of our Back to Basics strategy.

Changes to the Board

It is essential to have a Board with the expertise and experience to oversee the strategic direction of the Society and to ensure that the appropriate systems, controls and people are in place to deliver this strategy successfully. I believe this is clearly evident in the profile of the Board.

In the past year, we have appointed two new executive directors, Andrew Jones, as Group Risk Director, and Mark Gibbard, our new Group Finance Director.

Andrew joined the Society in March 2009 and in this short time has proved a key figure in the areas of governance, risk and regulatory matters. Mark, who joined the Society at the beginning of 2011, brings a considerable wealth of knowledge from more than 20 years' experience in the financial services sector, most recently with Nationwide Building Society.

In April 2011 we also welcomed two non-executive directors to the Board in John Ainley and Mark Preston. John has extensive experience in human resources and corporate responsibility, most notably with the global insurance provider Aviva, where he currently holds the position of Group Human Resources and Corporate Responsibility Director.

Mark Preston, who is presently a principal of the financial advisory firm Valere Capital, comes to the Society with an in-depth knowledge and expertise from 30 years in financial markets gained from senior positions with Lloyds TSB and CIBC.

Finally, I would also like to take the opportunity to express my gratitude to Ed Hucks and Bharat Shah, who retired at last year's Annual General Meeting (AGM), for their contributions to the Society.

As part of our succession arrangements, both Lesley James and Huw Davies will be retiring at the AGM in July. I am grateful to them for their service to the Society and the support they have given me since I was appointed.

Leading into the future

Over the last 12 months, the Society's progress in delivering on its Back to Basics approach and the measures adopted in recent years to support that success have created a firm foundation for the future.

In assessing the Society's much-improved position, it is appropriate to recognise the immense contribution of our outgoing Chief Executive, Robert Sharpe. Since his appointment in October 2008, Robert's tireless efforts have helped steer the Society in the right direction, resulting in an impressive turnaround in its performance and prospects. Robert has now stepped down as Chief Executive and he leaves with our gratitude for his outstanding work on behalf of the Society.

I am delighted to confirm the appointment of Jonathan Westhoff as our new Chief Executive. Jonathan has been with the Society since May 2009 and he has been an enormously influential figure in the high quality management team we have established at the Society. Jonathan has worked closely with Robert, sharing the same strategic goals which now see the Society well-positioned for the future. His appointment to the position of Chief Executive represents a smooth transition at the helm of the organisation, ensuring we continue our effective progress as a strong and independent building society. I know he echoes my thanks to you, our members, for your continuing loyalty and support.

Mark Nicholls
Chairman
25 May 2011

Chief Executive's Review

Jonathan Westhoff

Introduction – a picture of progress

The past year has again been a testing time for the financial services sector, and for the wider economy as a whole. Despite this difficult and uncertain economic backdrop, I am pleased to report that the Society has continued its steady progress, reinforcing the benefits of our Back to Basics strategy with its focus on the core activities of retail savings, investments and prime residential mortgages.

Consistent with this strategy, we have carefully managed the balance sheet, strengthened our capital base and retained high levels of liquidity. This has also entailed effective risk management, close control over costs and a continuation of our controlled run-off of non-core business. The effectiveness of this approach can be seen by the marked improvement in our results, with post tax losses down to £10.4m from the previous year's £17.0m. More significantly, at £9.3m, it is pleasing to report a return to profit at the operating level.

This performance is especially encouraging given the unrelenting pressure on interest margins from Bank Rate which, at 0.5%, has stayed historically low for a protracted period of time. For the Society, having a high proportion of its residential loans linked directly to this official rate presents challenges, particularly as we have sought to support our savers through this period of low interest rates and increased inflation.

As outlined in this Review our focus remains on strengthening further the West Brom's position as the leading regional building society in Birmingham and the Black Country, and the 6th largest in the UK.

Economic overview – a sense of uncertainty

During 2007 and 2008 an unprecedented series of events plunged the global economy into one of the worst economic crises in living memory and any signs of recovery have been tentative and unpredictable. The recent debt problems encountered by a number of European countries have proved a timely reminder of the precarious nature of international financial markets. Nearer to home, there remain fears of growing unemployment and a diminishing consumer appetite as the austerity measures introduced by the Coalition Government take effect. We will need to wait to see the full impact of this on the housing market which remains subdued.

Performance – playing to our strengths

Our Back to Basics strategy has, I believe, proved its validity and relevance when we assess the progress that the Society has continued to make over the course of the past year. In last year's Review we described the steps taken to re-focus the Society as a traditional and independent building society, where the safety and security of members' funds is our paramount objective. I would, therefore, like to detail our performance in light of the priorities contained in the Society's Back to Basics approach outlined last year.

Non-core activities

Our emphasis on the traditional building society activities of retail savings, investments and prime residential lending means that we are continuing to make a concerted effort to manage the orderly run-off of non-core activities, namely, commercial lending, residential property letting, second charge mortgage lending and mortgage broking:

- The commercial property sector is facing a particularly demanding operating environment, but our experienced and dedicated work-out teams, together with the Society's risk division, are making major strides in managing out the risk inherent within the commercial lending book, which was closed to new business in 2008. This was reflected by a 12.1% reduction, to £1.4bn, in the total exposure to commercial lending. Importantly, the Group has also ensured that prudent provisions, at 4.5% of outstanding balances, are in place in respect of those borrowers that have faced particular difficulties, such as tenant failures.
- With regard to the residential letting operation – West Bromwich Homes – a thorough review of the property portfolio, as well as the appointment of a new property manager, resulted in an underlying trading profit for the year of £0.2m compared with a loss of £1.2m in the previous year. Our aim is to exit this activity altogether and, accordingly, when it is sensible to do so, we will look to sell these properties. However, given the current outlook for the housing market and its effect on sale prices, the exit is likely to take several years.
- In terms of the second charge mortgage business – Insignia – it was decided, in 2009, that no further lending would take place and we have seen outstanding balances reduce from £50.6m to £44.8m in the last financial year. Since then, we have carefully managed the existing portfolio. Whilst arrears have increased to 7.7% (2009/10: 4.5%), this is in accordance with our expectations of a closed book of this nature.
- In March 2011 we completed the sale of the mortgage broking business – Mortgage Force – to its existing management team.

Core activities

Our Back to Basics strategy is closely aligned to the distinctive nature of a building society as a business that draws its strength and purpose from its members. This has guided our activities over the past year where, despite the all-time low Bank Rate,

Chief Executive's Review continued

the Society has again demonstrated its commitment to savers through an array of market-leading products.

The Society has featured in the Best Buy savings tables every week during the year, reflecting the competitiveness of both our branch-based accounts and our new WeBSave online channel. The launch of this new channel signals the Society's commitment to giving real choice to customers on their preferred way of doing business with us. With WeBSave, we are now able to extend our appeal to customers who prefer the flexibility and convenience that comes with a web-based account.

This ability to attract retail deposits, which amounted to a gross inflow of £1.9bn over the year, meant we maintained the proportion of our funding that comes directly from member deposits at some 85.8% of total funding. As a result, at the end of the year, the Society's residential mortgage book was funded 1.22 times by these retail deposits.

Lending – supporting borrowers

The UK mortgage market has remained subdued over the last 24 months, and since the beginning of 2008 house values have declined overall by circa 16%. Although there are concerns over growing unemployment and higher inflation, the low interest rate environment has helped those borrowers who have suffered a reduction in income to avoid falling into arrears. This is illustrated by continued low levels of arrears in the Group's core residential portfolio which, at 1.4%, are significantly below the sector average.

Importantly, where borrowers do find themselves in financial difficulty, the Society offers support and, where possible, agrees to affordable arrangements, enabling them to remain in their homes.

Liquidity and Capital – quality and quantity

Over the financial year, the Society maintained a strong liquidity position, ending the year with a ratio of 21.5%. The Financial Services Authority (FSA) has now increased its focus on the quality of liquidity and how readily a firm's holdings can be converted into cash. During 2010, the FSA introduced a new measure – 'Individual Liquidity Guidance' – which determines the minimum level of high quality assets that the Society needs to hold as liquidity. The Society calculates this on a daily basis and has consistently maintained a comfortable surplus above this requirement.

In the wake of the economic turmoil of the past three years, the level of capital held by financial institutions has been under scrutiny. This is not just in respect of total capital, but also its quality. As a result, the key measure of capital has shifted to the Core Tier 1 ratio. The Society's ratio was once again strengthened, to 12.8%, (2009/10: 11.8%), significantly above the regulatory minimum required of the Society, and some 89% higher than the level held coming into the current economic cycle in 2007.

Costs – keeping control

The Society keeps its operating costs under constant review, especially given the vagaries of the economic climate and the responsibilities we have to our members to ensure the business is run efficiently. Once again, the Society has delivered a further reduction in its underlying cost base, which is down some 4.2%. Moving forward, we do expect a small increase in costs as the Society re-establishes its position in the residential lending market.

Strategy – an exciting new era

The Society's Back to Basics strategy is very much about our identity as a traditional and independent regional building society, but this approach also recognises that no financial services organisation can afford to stand still. This has guided our desire to re-establish the West Brom as a modern, forward-thinking building society that is equipped to meet the needs of its customers within a highly competitive market place.

With this in mind, during the last year, the Society launched a revitalised brand, embarked on an extensive programme of branch modernisation, commenced the implementation of a new residential mortgage system and announced plans for a new head office in West Bromwich.

- **Brand**
  Taking the opportunity presented by the requirement to modernise the branch network, a new brand identity was launched in 2010. All of the Society's branch fascias and literature now incorporate the new colours and logo, which has consciously retained the image of the oak tree. This alludes to the West Brom's heritage of strength and vigour but has been updated in a modern style as befits a Society that is able to look ahead with genuine optimism. We also took the decision to adopt 'the West Brom' name when describing ourselves, something we discovered during our research that many of our customers already called us.

- **Branch modernisation**
  Our branch modernisation programme began with the Handsworth branch in November 2010 and we have now started work on the remaining branches with the aim of completing a further 26 in 2011. With new fascia fronts and improved interiors and facilities, our branches will provide customers and staff with the modern and comfortable surroundings they should expect from the region's largest building society. In 9 locations, we have concluded that the existing position of the branch is sub-optimal and we are actively seeking alternative sites. In addition, we have started to look for new branch locations within our operating region.

- **Residential mortgage lending**
  In 2008, the Society made the decision to restrict significantly new lending. The progress and stability achieved through our Back to Basics strategy has enabled us to consider increasing our lending and re-establishing our position in the mortgage market. Accordingly, we are now putting into place the systems and processes that will enable us to do so towards the end of 2011 with the focus purely on prime residential lending.

- **New head office**
  Our present building, situated on the High Street in West Bromwich, is more than 30 years old and would require significant investment to keep pace with our needs for a working environment that staff find a pleasant and efficient place to work, and which affords the right standards of technology and health and safety. The Society was, therefore, delighted to announce its proposed head office move to the All Saints site in West Bromwich. Subject to successful negotiations, which have proven more protracted than anticipated following the demise of Advantage West Midlands, this will enable the Society to affirm its commitment to the town where it was founded over 160 years ago.

Delivering value – a better customer experience

The Society's refreshed brand, branch modernisation programme and, importantly, our products and services, have one overriding objective in common – to provide our members with exceptional value and outstanding customer service. Indeed, we featured in the Best Buy tables every week over the course of the year with rates earned by the Society's savers being, on average, 1.2% higher relative to Bank Rate than two years ago.

In addition, the year also saw a number of innovations, which are designed to deliver exceptional value and customer service. This included our new Customer Relationship Management system (CRM), an innovative approach that will enable us to gain a much deeper and all-round focus on the specific needs of our customers. This market-leading capability allows us to deepen our understanding of the Society's customers so that we are better placed to offer them the right products at the right time.

Our people – inspired to achieve

The dedication, hard work and professionalism of our people have again been at the forefront of the year's successes. As ever, they have impressed with their commitment and enthusiasm in embracing the exciting developments underway at the West Brom.

Throughout the many developments taking place at the Society, a distinct theme recurs – that the way we treat each other is one of the defining qualities of the West Brom. This is, for example, illustrated by the set of values that guide our people in their approach to customers and colleagues whereby it is not only what we do, but the way we do it that is important.

Community support – an ideal in action

Supporting charitable and community groups is important to the Society. Indeed, over the past decade the Society has raised some £7m to support a variety of charities and community initiatives and causes. For example, in the last 12 months, the Society's partnership with the Diocese of Lichfield (the Mercian Trust Partnership) again proved its value by providing real, tangible help to people experiencing genuine disadvantage and difficulty. This encompassed issues of poverty, disability, health, the development of children and young people, old age, and domestic violence. Likewise, the Society's affinity accounts continued to benefit organisations concerned with specific interests, ranging from health and social issues to sport and recreation.

As always, it is necessary to recognise the generosity of our people and their fund-raising efforts on behalf of the Society's nominated charity for the year, Macmillan Cancer Support, which does so much for people living with cancer.

Member involvement – hearing what you say

Being a mutual organisation, owned by and run in the interests of its members, the Society is keen to listen to their views. The Society's Annual General Meeting is pivotal and, in addition, Members' Forums, held periodically at different locations in our operating region, are invaluable in ascertaining what members think about our products and services. These Forums are a strong demonstration of mutuality – by offering members an opportunity to express their views directly to the Chief Executive and other senior managers.

Member feedback is also conducted through a variety of other means, such as customer surveys, a mystery shopper programme and consumer research. Alongside these, the Society has a designated team of Customer Experience Managers, whose role is to help embed the principles of Treating Customers Fairly, a key policy of the FSA when it comes to promoting and protecting the interests of customers.

Outlook – a picture of promise

Wherever we look in the wider economy, it appears that the fallout from one of the worst economic crises in generations will continue to have an impact for some time to come. Operating in such challenging conditions, our aim has been to position the Society to withstand these pressures and, as we look ahead, to be able to compete as opportunities arise.

In many respects, the financial environment remains a demanding one but I can confidently say that the initial goals set by my predecessor, Robert Sharpe, have been realised, notably returning the Society to strength and putting in place a high quality management team that can take the West Brom forward.

The improvement in our performance, our new brand image, branch modernisation programme and proposed new head office, serve to emphasise the progress the West Brom has made in the last year. We are clearly heading in the right direction with an assured leadership team who share my fervent belief that the Society should always have at its heart the aim of serving its members and earning their loyalty.

Jonathan Westhoff
Chief Executive
25 May 2011

Board of Directors

John Ainley LLB (Hons), CCIPD
Non-Executive Director Age 54

John was appointed to the Board in April 2011. He is Group Human Resources and Corporate Responsibility Director with the global insurance provider, Aviva. John was previously a Human Resources Director with WH Smith, with responsibilities in the UK and USA. John is also a Director of the European Centre for Executive Development and sits on the CBI's Climate Change Board.

Huw Davies BA, MBA, FCA
Non-Executive Director Age 55

Huw was appointed to the Board in September 2006. Huw is Chief Financial Officer with Wates, one of the UK's largest private construction services and development companies, and was previously Head of Corporate Finance at Taylor Woodrow. He is a Non-Executive Director of WSP Plc and Trustee of I CAN, a charity supporting children with speech, language and communication difficulties. Huw is a member of the Society's Audit & Compliance and Nominations Committees.

Mark Gibbard BSc, FCA, MCT
Group Finance Director Age 49

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

Lesley James CBE, BA (Hons), MA, CCIPD, FRSA
Non-Executive Director Age 62

Lesley was appointed to the Board in January 2001. She was Director of Human Resources at Tesco and also held senior roles at SavaCentre, Sketchley and RHM Bakeries. She is a Non-Executive Director of St. Modwen Properties PLC and the Anchor Housing Trust, which provides housing services for retired people. Lesley is Chairman of the Society's Remuneration Committee and a member of the Nominations Committee.

Andrew Jones BSc (Hons), FCIB, FCIS
Group Risk Director Age 54

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

Mark Nicholls MA (Cantab), MBA
Chairman Age 62

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

Mark Preston BA, ACIB
Non-Executive Director Age 51

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

Martin Ritchley FCA, FCIB, Hon DBA (Coventry)
Deputy Chairman and Senior Independent Director Age 64

Martin was appointed to the Board in September 2009. He was formerly Chief Executive of Coventry Building Society and Chairman of the Building Societies Association. Martin is a Trustee of the ARC Addington Fund, a charity concerned with the sustainability of the farming community, and a director of The National Farmers Mutual Insurance Society. Martin is Chairman of the Audit & Compliance Committee, and on the Society's Remuneration, Nominations and Group Risk Committees.

Richard Sommers MA (Oxon), ACIB
Non-Executive Director Age 54

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

Jonathan Westhoff BA (Hons) Financial Services, FCMA, ACIB
Chief Executive Age 46

Jonathan was appointed to the Board in May 2009 and served as both Group Finance Director and Deputy Chief Executive before his appointment as Chief Executive in May 2011. He has more than 28 years' experience in the financial services sector, including 17 years with Barclays Bank and, more recently, as Finance Director of two large building societies, Portman and Newcastle. Jonathan is a member of the Society's Group Risk and Assets & Liabilities Committees.

Financial Review

The West Brom has continued to demonstrate its ability to deliver on the commitments contained in its Back to Basics strategy, which emphasises the core building society activities of retail savings, investments and prime residential lending. Against a backdrop of subdued economic activity and prolonged interest margin pressure, the Society has reported a substantial reduction in pre-tax losses and, more significantly, a strong improvement, in its underlying performance. At the same time, the Society has strengthened its capital base and positioned the business effectively for the future. This has all been achieved while protecting the income of savers through consistently competitive interest rates over the course of the year.

Despite the ongoing economic uncertainty, the Group has been able to deliver strong results in the following key areas:

Managing risk – Reduction in impairment charges, down 18%, within a framework of tight risk management;

Recovery of net interest margin – The margin increased to 0.43% (2009/10: 0.30%);

Maintaining a strong capital position – Measured reduction of risks on the Balance Sheet strengthened the Group's capital position. The Core Tier 1 ratio increased to 12.8% (2009/10: 11.8%);

Enhancing liquidity – Liquidity balances maintained at a comfortable surplus above the more rigorous requirements established for banks and building societies since the credit crisis;

Continued low reliance on the wholesale markets – 85.8% of funding sourced from retail customers (2009/10: 89.0%);

Maintaining asset quality – the percentage of residential loans greater than 3 months in arrears was 1.67% (2009/10: 1.55%), 1.43% excluding second charge lending (2009/10: 1.44%); and

Tight cost control – Underlying management expenses down 4.2% to £41.1m (2009/10: £42.9m).

Performance overview

The Group loss before tax, on a reported and underlying basis, is set out in the table below:

Year to 31 March

	2011 £m	2010 £m
Reported loss before tax on continuing operations	**(13.1)**	(18.5)
Reported loss from discontinued operations	**(0.7)**	(5.8)
Total Group loss before tax	**(13.8)**	(24.3)
Net fair value movements	**9.1**	(2.7)
Gains from sale of financial instruments	**(15.6)**	(3.8)
FSCS levy charge/(release)	**2.2**	(5.4)
Restructuring costs	**1.8**	4.6
Discontinued operations	**0.7**	5.8
Underlying loss before tax on continuing operations	**(15.6)**	(25.8)

The total Group pre-tax loss for the year of £13.8m showed a marked improvement on the previous year figure of £24.3m. Year on year, the reduction in the underlying loss was also significant, falling from £25.8m to £15.6m. Although the underlying result is relatively similar to the reported pre-tax figure there are a number of differences which are explained below:

- Net fair value movements. These reflect hedge accounting requirements and are expected to reverse over time;
- Gains from the sale of financial instruments. These gains arose through the ongoing management of the Society's treasury portfolio;
- FSCS levy charge. This relates to the provision for the Society's share of the costs for the scheme year 2010/11. The release in the prior year arose from final clarification and industry consensus on the actual costs required to be charged in each financial year; and
- Restructuring costs. These result from the Group's decision to rationalise its cost base and consist of the items disclosed on the face of the Income Statement as restructuring combined with the onerous lease provision charge.

Overview by business division

The Group is organised into three main business divisions:

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

Year to 31 March

	2011 £m	2010 £m
Retail	**4.5**	3.5
Commercial	**(15.7)**	(23.3)
Property	**(1.7)**	0.2
Intercompany adjustments	**(0.2)**	1.1
Loss before tax on continuing operations	**(13.1)**	(18.5)
Mortgage broking (discontinued operations)	**(0.7)**	(5.8)
Total Group loss before tax	**(13.8)**	(24.3)

Retail

The Retail division represents the core building society activity of residential lending primarily funded by retail savings. The contribution from this division continues to be directly affected by a number of challenging factors, principally the persistently low interest rate environment, rising unemployment, constrained money markets and a subdued housing market. Despite the detrimental impact on margin, the Society has sought to preserve, where possible, the income of its savings members by maintaining competitive interest rates while the interest charged to the majority of its mortgage customers has reflected the continued low Bank Rate. Balancing the conflicting pressures from the mortgages and savings areas of the Retail division has enabled the division to post a slight increase in profits compared with the prior year.

The primary focus of the division is to sustain long-term member value. Through active credit management as part of the Society's determination to de-risk the balance sheet, loan balances reduced 7.3% to £4.6bn, with the majority of that fall occurring in higher risk assets. The performance of the residential credit management teams has been excellent, showing that the momentum of the previous year has been maintained. Arrears levels continue to track below the market average and, excluding the impact of the closed second charge lending book, these have fallen over the last 12 months. Just 1.43% of accounts were in arrears by 3 months or more at the end of the year, broadly the same as the previous year.

As part of the Back to Basics approach, the Society has commenced investment in the modernisation of the branch network as well as implementing a new mortgage front-end system. This will provide the Society with a favourable platform for its aim of re-establishing its position in the residential mortgage market.

In a market characterised by general uncertainty over the economic recovery, non-interest income has been detrimentally impacted, reducing some 5.8% year on year. The primary drivers for this reduction in income are the reduced activity in the housing market and falling commission rates on investment product sales.

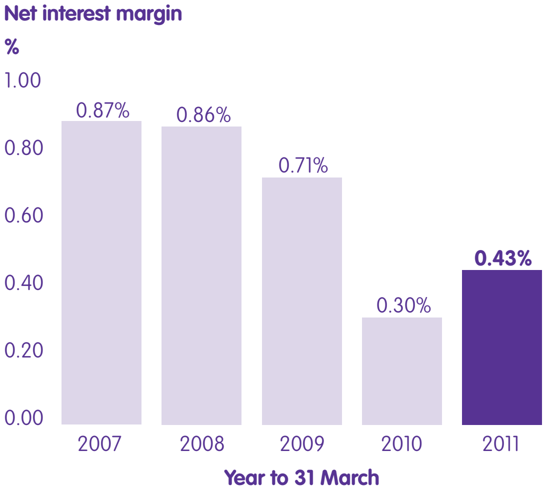
Commercial
The commercial property sector continues to experience a difficult operating environment. The Group has ensured that the oversight and management of this risk remains a critical area of focus during the year. In line with the Back to Basics strategy, the Group invested heavily in its commercial lending work-out teams and risk division during 2009 and 2010 with the overriding goal of managing out the risk inherent within the closed commercial lending book.

Over the course of the year, total exposure to commercial lending reduced by 12.1% to £1.4bn, of which £288.0m is securitised to external investors. Whilst the Group continued to make prudent provisions in regard to any identified emerging difficulties, the charge against commercial loans reduced to £8.7m from £15.7m in 2009/10. This contributed to a substantial fall in the loss of the division, down 32.6% to £15.7m

Property
The Property division results reflect two constituent parts: the trading profit from the net rental income from the residential letting operation (West Bromwich Homes Limited) and changes in the fair value of these properties. In 2010 the Group reviewed the management of its property portfolio and appointed a new property manager with the purpose of enhancing the effectiveness of the division. The underlying trading profit of £0.2m (2009/10: loss £1.2m) reflects the significant cost-saving and efficiency improvements in the overall management of the portfolio.

The recent deterioration in the housing market has led to a reduction of £1.9m in the valuation of the investment property portfolio (following a gain of £1.4m in the previous financial year). This meant an overall loss for the division of £1.7m.

Financial performance – Group
Net interest margin



The net interest margin - primarily the difference between the interest received from borrowers and the interest payable to savers - rose to 0.43% (2009/10: 0.30%) resulting in an increase of net interest earnings to £34.4m (2009/10: £25.9m). External market pressures continued into 2010/11 with margin directly impacted in particular by:

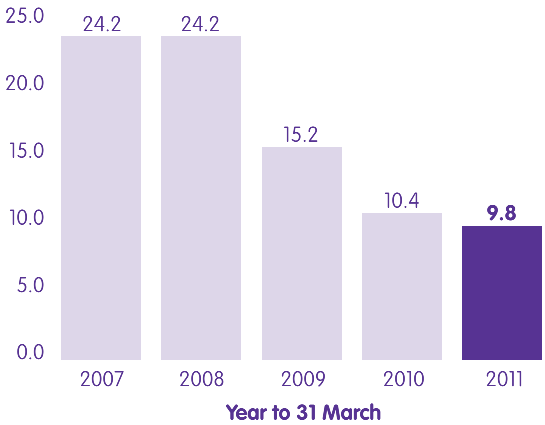
- our determination to uphold the interest income of our savings members, where possible, by maintaining competitive interest rates throughout this period. The rates being earned by the Society's savers are, on average, 1.2% higher (2009/10: 1.1% higher), relative to Bank Rate, than two years ago;
- the increase in the quality of liquidity with a higher proportion of low risk assets, such as gilts, cash, government guaranteed securities and treasury bills. These high quality liquid investments return a lower yield and have consequentially reduced the overall yield on this portfolio; and
- the need to absorb the impact of the very low interest charged to a large proportion of the Society's mortgage customers following the continuation of the unprecedented low interest rate environment.

As a result of the above, the net interest margin is likely to remain under pressure until Bank Rate increases.

Other income

Other income

£m



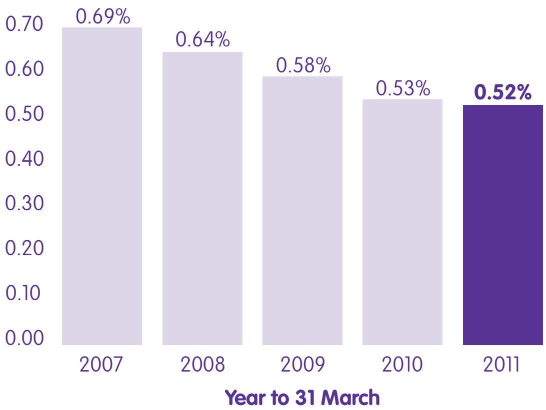
Other income, which represents income earned from the sale of insurance and investment products, together with fees earned on lending activity and rental income, decreased to £9.8m from £10.4m.

A high proportion of the non-interest income earned by the Society comes from mortgage-related services (fees, protection and general insurance) with the remainder arising as commission for the sale of investment products. Reduced activity within the housing market combined with suppressed commission rates for investment sales have been the prime drivers for this 5.8% fall in income.

Management expenses

Management expenses ratio

%

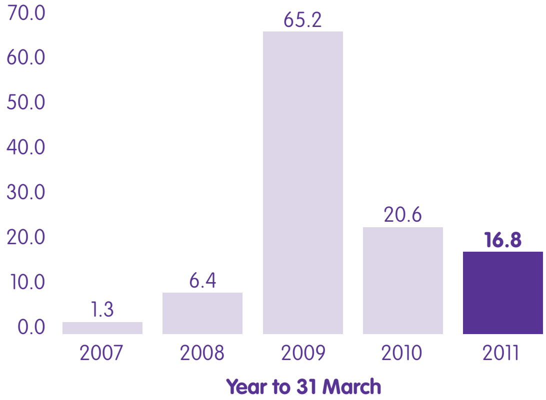


The management expenses ratio is a measure of cost efficiency, reflecting costs as a proportion of total assets managed. Despite the managed reduction in Group assets the ratio has improved slightly to 0.52% (2009/10: 0.53%). The underlying cost base (which excludes restructuring costs) showed a slight increase to 0.52% (2009/10: 0.49%) which reflects the Society's continuing investment in systems and resources to facilitate its long term future. Further investment will be required to re-establish our presence in the residential mortgage market during 2011/12.

Impairment provisions on loans and advances

Charge for impairment losses on loans and advances

£m



The charge for impairment losses on loans and advances was down for the second year running, from £20.6m to £16.8m. The main reason for this reduction is the intense focus on the commercial loan portfolio. The increase in the charge against residential lending relates predominantly to increases in the Group's collective provision as concerns arising from potential unemployment levels and doubts in terms of the speed of recovery of house prices. The underlying quality of our residential lending remains strong in both prime residential and buy-to-let exposures and, irrespective of conflicting views from industry commentators on the health of the wider economy, the Society continues to take a prudent view when determining the appropriate level of provisions.

As at 31 March 2011 – Group Provisions

	Commercial £m	Residential £m	Total £m
At 1 April 2010	58.4	25.6	84.0
Amounts written off	(6.2)	(3.4)	(9.6)
Charge for the year	8.7	8.1	16.8
As at 31 March 2011	**60.9**	**30.3**	**91.2**

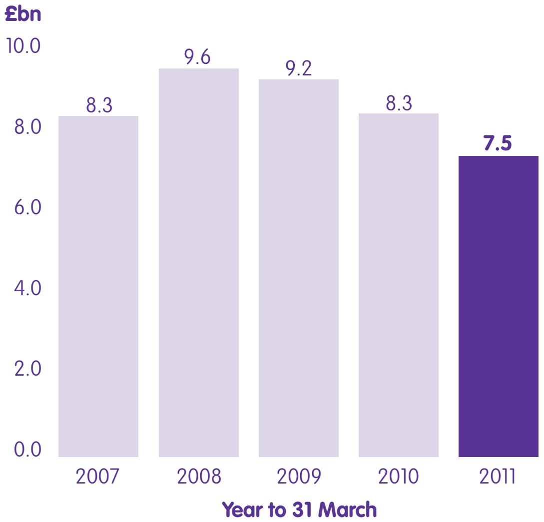
As at 31 March 2010 – Group Provisions

	Commercial £m	Residential £m	Total £m
At 1 April 2009	50.6	31.6	82.2
Amounts written off	(7.9)	(10.9)	(18.8)
Charge for the year	15.7	4.9	20.6
As at 31 March 2010	58.4	25.6	84.0

Financial position

The paramount goal of the Board is to safeguard the deposits of the Society's members. Given the nature of external challenges and pressures, the Board deemed it appropriate to take steps to conserve and strengthen its capital position and, as a consequence, ensure it remains strong for the long term. With the unprecedented low interest rate environment, intense competition for retail funds and wholesale markets providing only limited access to the West Brom, the Group has continued its strategy of a measured contraction of its assets. As a result of this, Group total assets reduced by 9.4% to £7.5bn.

Group total assets



Loans and advances to customers

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

The Board is pleased with the progress made in line with its Back to Basics strategy as the Society aims to re-balance the proportion of loans represented by traditional prime residential lending. While this has exerted an adverse effect on income, the actions taken in the previous year have helped to reduce the risk profile of the mortgage book. This is primarily due to commercial and second charge loan portfolios being in run-off following the decision to exit completely from both these sectors.

Residential

Residential mortgages represent prime advances, including buy-to-let, made through the Society's branches and intermediary channels. Also included are mortgage portfolios acquired through the Society's subsidiary company, West Bromwich Mortgage Company Limited, although no such portfolios have been acquired since 2005. At the end of the period, the residential mortgage portfolio was divided 34.3% prime owner occupied, 55.3% buy-to-let and only 10.4% acquired portfolios and other.

The low interest rate environment has enabled many borrowers, who may have experienced the impact of income reductions and rising inflation, to maintain their repayments. The Group's core residential arrears (number of cases 3 months or more in arrears) remained flat (core residential lending excludes the closed second charge mortgage book which has shown an increase year on year). At 1.43% (2009/10: 1.44%), this remains significantly below the sector average. Whenever possible, the Society has offered support to those borrowers who are experiencing genuine financial hardship, so enabling them to remain in their homes.

The level of buy-to-let loans originated by the Group which are 3 months or more in arrears also remained very low, reducing from 1.04% to just 0.93%, considerably below the sector average of 1.62%. Whilst the increase in arrears within the Group's second charge lending portfolio looks disappointing, up from 4.5% to 7.7%, this is still very much in accordance with our expectations of a closed book of this nature.

As at 31 March 2011 Group Arrears

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

As at 31 March 2010 Group Arrears

	Total Balances £m	3 months+ %
Prime	1,797.8	1.02
Buy-to-let	2,602.0	1.04
Acquired portfolios and other	472.7	5.44
Core residential	4,872.5	1.44
2nd charge lending	50.6	4.49
Total	4,923.1	1.55

Commercial

Another example of the Group delivering successfully on its Back to Basics strategy can be seen in the de-risking of its balance sheet through the managed run-off of the historic commercial loan book. Progress has been encouraging with balances secured on commercial property assets down by 12.0% to £1,278.8m (2009/10: £1,453.3m) and loans fully secured on residential property portfolios managed by Commercial division reduced to £109.3m (2009/10: £124.5m). Of these, £288.0m is securitised (2009/10: £367.9m).

With uncertainty over the sustainability of any recovery in the commercial sector, and the impact of government spending cuts and initiatives to kick-start the economy still unclear, the Society continues to treat the managed and cautious run-down of its commercial lending portfolio a priority. Considerable investment in our commercial lending work-out teams and risk division during 2009 and 2010 has resulted in a reduction in the impairment charge against commercial loans, to £8.7m (2009/10: £15.7m). However, the Society is still making prudent provisions where emerging difficulties are identified. At the end of the period, the Group had £60.9m (2009/10: £58.4m) set aside for potential losses from exposures to the commercial property sector, 4.5% of the current loan book (2009/10: 3.8%):

Funding

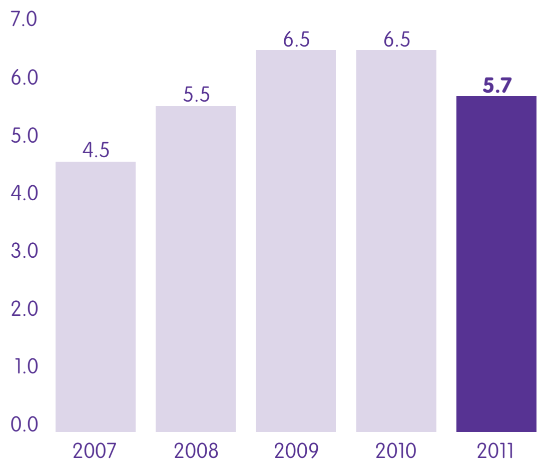
With access to wholesale markets still restricted and intense competition for retail savers, the funding environment remains difficult. Against this backdrop, the Society has responded well and has maintained a secure and resilient funding base.

Retail

As a central component of its Back to Basics strategy, the Society kept the proportion of funding that comes from retail member deposits at strong levels, 85.8% as at 31 March 2011 (2009/10: 89.0%).

Total retail deposits reduced to £5.7bn (2009/10: £6.5bn) as a consequence of the Group's managed balance sheet contraction. Residential mortgage assets remain comfortably funded 1.22 times (2009/10: 1.29 times) by these deposits.

Retail balances



Prolonged low interest rates have had an inevitable impact on savings returns. Nevertheless, the Society has ensured that its members have been provided with an attractive range of diverse products that offer savers a consistent and valuable return on their assets. This has been a primary reason behind the Society's success in attracting new member balances. Based on the benefits of this approach, the Society considers that the retail market is a sensible and durable source of funds and, consistent with its Back to Basics strategy, will remain the prime source of funding for the Society.

Non-retail

Throughout the year, the wholesale credit markets have remained relatively inaccessible, a situation aggravated by growing anxieties over the ability of a number of European countries to control and service their debt.

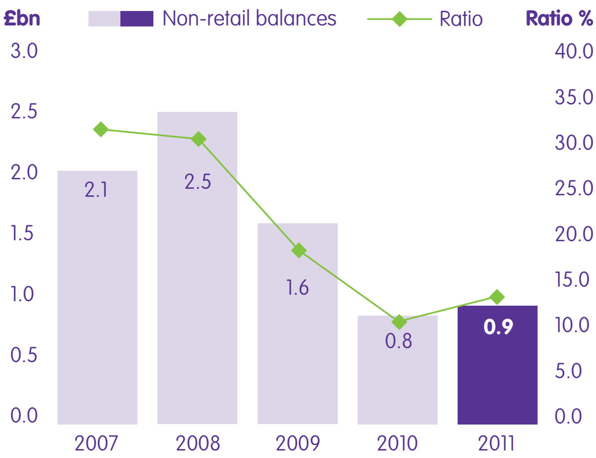
This has further convinced the Society that the unsecured wholesale markets remain unreliable as a primary source of funding, compared with retail deposits, leaving the Group with a limited reliance on wholesale funding at a level it believes is comfortable in the current market context. This is reflected in the rise in the non-retail funding ratio which, at 14.2% (2009/10: 11.0%), is well within the acceptable limits set by the Board. However, the Board remains alert to any potential to obtain quality secured term funding and is exploring the possibility of securitisation opportunities that may be available in the coming year.

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

As at 31 March Non-retail funding sources

	2011 £m	2010 £m
Repo and other secured agreements	**722.6**	506.6
Deposits	**195.9**	236.9
Certificates of deposit	**9.0**	7.5
Medium term notes	**16.2**	56.6
Total	**943.7**	807.6

Non-retail balances and ratio



Liquidity

Liquidity has been maintained at levels comfortably in excess of regulatory requirements. The quality of this liquidity has also been strengthened as shown by the increase in the level of the Group's treasury investment assets that were rated single A or better, 95.9% at 31 March 2011 (2009/10: 92.2%).

The key measure that the Society uses to monitor its liquidity position is the total level of 'buffer liquidity' against our regulatory requirement (set by the FSA). Eligible buffer liquidity constitutes gilts, treasury bills, supranational bonds and reserves with the Bank of England. As such it represents the most liquid and secure form of holding. During the year the Society increased the proportion of its investments held in this high quality buffer liquidity to 47.0% (2009/10: 34.1%) comfortably above its Individual Liquidity Guidance figure set by the FSA.

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

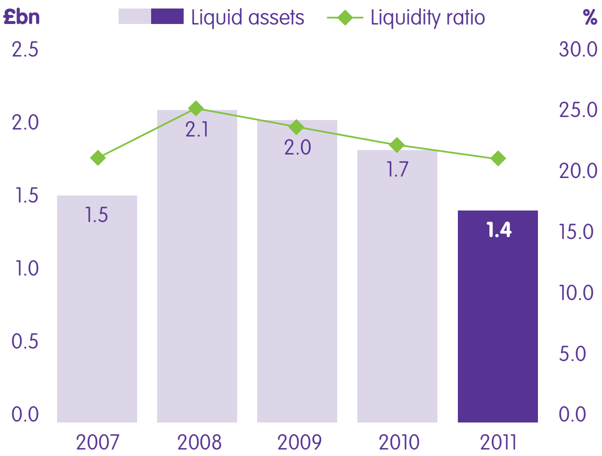
As at 31 March 2011 Investment portfolio

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

As at 31 March 2010 Investment portfolio

	£m	%
Buffer liquidity		
- Bank of England Reserve	7.7	0.5
- Treasury Bills	417.6	25.3
- Gilts	136.8	8.3
Total buffer liquidity	562.1	34.1
Other securities – rated single A or better	872.5	52.8
Other securities – rate less than single A	119.1	7.2
Subsidiary/other liquidity	98.0	5.9
Total liquidity	1,651.7	100.0

Liquid assets and ratios



With persistent market pressures and fears over the recovery of the economy, a cautious and prudent approach to liquidity management is required. To facilitate this, the Society employs a rigorous credit assessment process and considers the risks of all assets before they are acquired, as well as throughout the period they are held. In this context, Treasury assets are valued using quoted market prices or prices obtained from counterparties (see note 31). The Group has no exposure in its liquidity portfolio to the emerging markets, Greece, Ireland, Italy, Portugal or Spain, or to any mortgage market other than the UK, and no impairment charges were required against any treasury investment assets in the year.

Capital structure

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

Risk weighted assets are calculated by asset class under Basel II using the Standardised approach. This provides an important estimate of credit, market and other risks associated with each asset and counterparty. The following table shows the composition of regulatory capital and the capital ratios of the Group for the years ended 31 March 2011 and 31 March 2010 respectively. As at 31 March 2011, the Group's total solvency strengthened to 15.6% (2009/10: 14.3%) driven by the reduction in risk weighted assets.

As at 31 March

	2011	2010
Regulatory capital	**£m**	£m
Tier 1		
General reserves	**251.3**	258.5
Permanent interest bearing shares (note 1)	**74.9**	74.9
Profit participating deferred shares	**177.3**	179.9
Intangible assets (note 2)	**(9.0)**	(7.2)
Deductions from Tier 1 capital (note 3)	**(4.3)**	(4.9)
	490.2	501.2
Tier 2		
Revaluation reserve	**3.7**	3.8
Collective impairment allowance	**18.9**	18.4
Contingency against collective provision add back (note 4)	**(4.4)**	–
Deductions from Tier 2 capital (note 3)	**(4.3)**	(4.9)
	13.9	17.3
Total capital	**504.1**	518.5
Risk weighted assets – Pillar 1		
Retail mortgages	**1,817.4**	1,935.3
Commercial loans	**1,037.1**	1,182.1
Treasury	**106.1**	182.6
Other	**155.8**	160.4
Market risk	**3.6**	35.9
Operational risk	**120.6**	120.6
	3,240.6	3,616.9
Key capital ratios		
Core Tier 1 (%) (note 5)	**12.8**	11.8
Tier 1 ratio (%) (note 5)	**15.1**	13.9
Total capital (%) (note 5)	**15.6**	14.3

Notes

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

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

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

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

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

The Basel Committee of Banking Supervisors issued final Basel III guidelines across December 2010 and January 2011. The changes proposed by these new standards, applicable from 1 January 2013 (with some transitional rules to 2018), are yet to be incorporated into UK law. We have assessed the impact such changes present for our current plans and can confirm that the Society will continue to show a strong capital position post implementation.

As at 31 March 2011 the Group's Core Tier capital 1 ratio increased from 11.8% to 12.8% and its Tier 1 ratio from 13.9% to 15.1%. This represents a strengthening of our capital base ahead of the effects of the expected regulatory changes. We believe this is one of the highest Core Tier 1 ratios amongst UK banks and building societies. The prime driver for this increase in capital ratios is the managed reduction of balance sheet exposures, especially with respect to high risk assets, with risk weighted assets down by 10.4% to £3.2bn.

Pension schemes

The Society operates a defined benefit pension scheme (closed to new members and accruals) and a defined contribution pension scheme. The accounting valuation of the defined benefit pension scheme reported an accounting surplus of £1.8m (2009/10: deficit £2.0m), representing the net impact of a number of factors. The valuation reflects the recent changes in Government legislation, which link specific benefits to inflation increases in the CPI index rather than the RPI index. This has had the effect of reducing the value of the scheme liabilities by £3.0m. The resulting credit was recognised directly through reserves.

The Society will continue to monitor the defined benefit scheme and, alongside the trustees, ensure that the fund is managed in a responsible manner. The Society made special contributions of £1.5m during the year (2009/10: £5.0m).

Risk Management and Control

Introduction

Effective management of risks and opportunities is essential to achieving the Society's corporate objectives.

The Board's approach to risk management includes the following steps:

- Agreement of the overall risk appetite;
- Identification of key risks;
- Assessment of the impact and likelihood of occurrence;
- Introduction of controls to limit the impact and/or reduce the likelihood;
- Monitoring the effectiveness of the controls; and
- Dealing effectively with risks which crystallise.

The key components of the Society's framework are described as follows:

Risk management framework

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

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

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

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

Key risk categories

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

Risk Category	Society Definition
Business Risk	The risk to the Society arising from changes in its business, including the risk that it may not be able to carry out its business plan and/or its desired strategy. This may be due to changes in the competitive environment or events which damage the operating economies of the Society (e.g. competitor activity or changes in regulation and/or taxation).
Credit Risk	The risk that material unexpected losses may arise as a result of borrowers, creditors or market counterparties failing to meet their obligations to repay.
Concentration Risk	The risk of losses arising due to the concentration of exposures which have a significant positive correlation (e.g. in terms of geography, industry sector, major counterparty etc), or are influenced by common external factors.
Liquidity Risk	The risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.
Market Risk: Interest Rate Risk	The potential risk of movements in interest rates having an adverse impact upon planned future cash flows.
Market Risk: Other	The risk of potential losses or decrease in value of total assets as a result of adverse market movements.
Operational Risk	The risk of loss and/or negative impact resulting from inadequate or failed internal processes, people and systems, or from external events.
Pension Liability Risk	The risk that there will be a shortfall in the value of the pension fund assets over and above the guaranteed liability to its employees under the defined benefit pension scheme. This may result from a number of sources including Market risk, Equity risk and/or mortality rates.
Residential Property Holding Risk	The risk of losses in the collective value of the Group's residential property portfolio following a general decrease in property prices both locally and nationally.

For each of these categories, key external and/or legacy related risks have been identified and assessed for impact and likelihood. This provides a 'top down' view of the main risks facing the Society. In addition, the Society's key processes have been identified and the main risks to those processes identified and assessed, giving a 'bottom up' view. The Group Risk Committee, established in 2009, meets quarterly, as a minimum, to review the combined view of the Group's risks. During the financial year the Committee met on five occasions.

For each risk and key process, the key mitigating controls have been identified and the effectiveness of the controls is monitored by the line management, with control functions providing a 2nd line of defence and Internal Audit, through an approved assurance programme, providing the 3rd line.

Principal risks and uncertainties

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

Risk Category	External/Legacy Risk	Controls and Activity
Business Risk	Continuation of ultra-low interest rates (leading to further strain on margins) or adverse changes to the operating environment.	Business plans have modelled the impact of a range of scenarios. Income projections are reviewed regularly to identify mitigation actions.
Credit Risk	A sharp increase in Bank Rate (leading to increased arrears and losses).	Given the proportion of Base Rate Tracker mortgages, higher rates would improve margins. The Society would expand its credit management resource to manage any arrears impact. The Society's expected loss models take into account the impact of higher interest rates.
	Higher unemployment (leading to increased arrears and losses).	The Society's provisioning and stress testing models assume a range of unemployment levels. Should an increase occur, the Society would expand its credit management resource.
	Reduction in property prices (leading to a higher incidence of voluntary possessions).	The Society is committed to working with borrowers to avoid possession whenever possible. In the event that possessions were to increase the Society has provided prudently and regularly reviews its impairment provisions.
	'Double dip' recession (leading to further tenant failures).	The Society already has a well resourced and highly experienced team in place dealing with commercial property mortgages and, as has been the case throughout 2010/11, would work with borrowers to lessen the impact. The Society has set aside impairment provisions to limit the impact of losses.
Concentration Risk	Overexposure to non-prime residential lending (leading to losses if those exposures are affected disproportionately).	Known exposure to commercial mortgages is the subject of continuing intensive attention. The exposure to buy-to-let mortgages is acknowledged but, currently, these mortgages are performing well. If this were to change the Society would increase the resource available to handle any increased activity.
Liquidity Risk	Intensification of competition for retail funding.	The Society continues to attract new retail savers despite intense competition. Modest Balance Sheet growth plans ensure this risk is minimised.
Operational Risk	Insurance arrangements do not sufficiently cover an event (requiring the Society to pick up the cost).	The annual review of insurance arrangements is based on advice from brokers and an annual benchmarking exercise.
Pension Liability Risk	Increased longevity, poor investment returns (requiring the Society to contribute more to the scheme).	The defined benefit scheme is closed to new members and existing members are no longer accruing service benefits. The Trustee takes extensive advice (actuary, investment advisers etc) to minimise the impact of the identified risks.
Residential Property Holding Risk	House price falls (leading to a reduction in book value of the residential letting portfolio).	The intention is to gradually dispose of the properties over time.

Day-to-day risk management and governance

Primary responsibility for risk management, including the design and operation of effective controls, rests with the management of each business function – the 'first line of defence'. Support and challenge is provided through specialist risk functions – Credit Risk, Operational Risk and Assets & Liabilities Management – the 'second line of defence'. These functions develop and review policies, monitor and support compliance with those policies, and support the business functions to manage risk. Governance and oversight is provided through the Group Risk and Assets & Liabilities (ALCo) Committees.

Independent assurance is provided by the Internal Audit function – the 'third line of defence', which has a direct reporting line into the Audit & Compliance Committee.

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.

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

In 2008/9 the Group established a dedicated Credit Management Division (previously part of the Operations Division) to increase the skills and resource available to manage mortgage arrears. This has entailed a considerable investment in the team managing the legacy book.

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

Additionally, Credit risk can arise within treasury transactions (used to meet liquidity requirements and those hedging instruments used for interest rate risk purposes). This type of Credit risk is managed by the Assets & Liabilities Management

(ALM) team. On a daily basis, ALM monitors exposures to counterparties and countries, and ensures the Group is operating within its Board approved limits. ALCo and the Board review the Treasury Policy and limits, with reports presented to ALCo on a monthly basis confirming compliance with such policy limits.

Throughout the last financial year, 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 the value of, or income arising from, the Group's assets and liabilities as a result of changes in interest/exchange rates or equities. Market risk exposures are managed through the Group Treasury department which is responsible for managing 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, which arises 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 natural 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 place 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% parallel shift in the yield curve, subject to a floor at 0%. However, in the day-to-day management of the Group, the impact of alternate scenarios is also considered.

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

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

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 is 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 high quality liquid resources to:

- cover cash flow imbalances;
- cover fluctuations in funding;
- retain full public confidence in the solvency of the Group; and
- 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 controlled management of the growth of the business.

The Society has a very low exposure to wholesale funding and a secure retail funding base, both of which serve to minimise risks relating to funding volatility. The Group has a prudent approach to liquidity management.

The Group has a contingency funding plan, agreed at Board level and reviewed at least annually. ALCo monitors liquidity risk and also receives regular updates on the liquidity position, including the outputs from a wide range of stress tests.

In June 2010, the FSA introduced new requirements for liquidity management and reporting and, following significant investment in infrastructure, the scope and nature of the liquid assets held by the Group complies with this new regulatory requirement.

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

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

Tax risk
The Group is subject to the tax laws in all countries in which it operates, but principally this risk is UK based. Tax risk is the risk associated with changes in tax law or in the interpretation of tax law when applied to business activities. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities.

Failure to manage tax risks could lead to additional tax charges and a corresponding reduction to profit after tax. It could also lead to financial penalties for failure to comply with required tax procedures or other aspects of tax law.

If, as a result of a tax risk materialising, the tax costs associated with particular transactions are greater than anticipated it could affect the value generated from those transactions. The Group takes a responsible approach to the management and control of its tax affairs and is cooperative in its dealings with the tax authorities.

Capital management

The Group conducts an annual Internal Capital Adequacy Assessment Process (ICAAP) covering all risks. This is used to assess the Group's capital adequacy and determine the levels of capital required going forward to support the current and future risks in the business. This analysis is collated into an Internal Capital Assessment (ICA) that is approved by the Board. The ICA incorporates expected future capital requirements from changes in business volumes, mix of assets and activities within the context of current and anticipated future risks, and multiple, stressed scenarios. The ICA is used by the FSA to set our capital requirements as Individual Capital Guidance (ICG). The detailed breakdown of the Group's capital position can be found on page 12.

Future developments and outlook

Economic forecasts are mixed but we can be certain that significant challenges will persist in our principal markets. Historically low interest rates, intense competition for retail funding and changes to the regulatory regime will all factor in an unfavourable operating environment for the sector. Any hoped for recovery will only materialise in the long-term with many commentators sceptical of the prospects for any immediate upturn in the economy.

In view of this, we can expect Bank Rate to remain comparatively low even with inflation running at its highest for almost 4 years and well above the Government's target of 2%.

Set against this landscape, and taking into account the Society's resolve to support members with attractive savings rates, the timing of any marked improvement in the Net interest margin is difficult to determine.

Following the faltering recovery in the housing market at the start of 2010, the second half of the year saw a return to the downward trend experienced in the previous two years, exacerbated by a shortage of available property for purchase and the continued limited availability of funding in the market. Unless these factors are considerably alleviated, the Society considers that any recovery in the housing market is likely to remain restrained in the next 12 months.

Once again, the Society has maintained momentum in applying its Back to Basics strategy, particularly in exiting the run-off businesses and investing in the infrastructure to position itself effectively as a leading regional building society. Within this context, attention will remain firmly focused in the coming year on further de-risking our balance sheet and ensuring that retail savings continue to be our primary source of funding in line with the core activities of a traditional building society.

Mark Gibbard
Group Finance Director
25 May 2011

Directors' Report

The Directors are pleased to present their Annual Report, together with the Audited Accounts, for the financial year ended 31 March 2011.

Business objectives

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

Business review

The Group's business and future plans are referred to in the Chairman's Statement on page 2, the Chief Executive's Review on pages 3 to 5 and the Business Review on pages 7 to 17.

Profit and capital

The Group's loss before tax (on continuing operations) amounted to £13.1m (2009/10: £18.5m). The total loss after tax transferred to General reserves was £10.4m (2009/10: £17.0m).

The total Group reserves at 31 March 2011 were £252.3m (2009/10: £260.2m) after taking into account a Revaluation reserve of £3.7m (2009/10: £3.8m) and the Available for sale and Cash flow hedging reserves of deficit £2.7m (2009/10: deficit £2.1m).

Gross capital at 31 March 2011 was £504.5m (2009/10: £515.0m) including £177.3m of Profit participating deferred shares (2009/10: £179.9m) and £74.9m (2009/10: £74.9m) of Subscribed capital. For further details see page 86.

The main Group ratios were as follows: Gross capital ratio; 7.58% (2009/10: 7.01%), Free capital; 5.86% (2009/10: 5.38%) and Liquidity ratio; 21.47% (2009/10: 22.47%).

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

Key performance indicators (KPIs)

The Society measures its performance against its strategic aims by reference to a number of key performance indicators.

These indicators are primarily financial in nature but also include a number of non-financial measures. The following table identifies and explains the key performance indicators that have been used by management for determining Group performance compared to the Corporate Plan. Where any of these measures are different from reported IFRS results, they should be seen as complementary to, rather than replacements for those results. Performance against financial KPIs is covered in the Business Review from page 7.

Measure	KPI	Calculation	Relevance to Society strategy
Capital	**1** Core Tier 1 ratio	Proportion of risk weighted assets covered by Core Tier 1 capital of: General reserves, Subscribed capital, Profit participating deferred shares less intangible assets and other deductions.	Maintain a capital and liquidity position to reflect the risk appetite of the Society.
	2 Solvency ratio	Proportion of Risk weighted assets covered by Total capital of: Core Tier 1 capital plus Revaluation reserve, collective impairments allowance less certain deductions.	
Financial	**3** Wholesale funding ratio	Wholesale funding as a percentage of shares and borrowings less non-recourse finance.	Maintain a focus on retail savings as the Society's core funding source.
	4 Lending limit	Proportion of Total assets not in the form of loans secured on residential properties.	Under its Back to Basics strategy, the Society will focus on prime residential mortgages.
	5 Prudential liquidity	Proportion of total Shares and borrowings that are held in the form of cash or highly liquid assets (including Treasury Bills).	Maintain strong liquidity in order to ensure savers can access their funds whenever they so desire.
	6 Immediate cash	Proportion of liquid assets that are held in the form of cash or assets that can be converted to cash within 8 days.	Maintain strong liquidity in order to ensure savers can access their funds whenever they so desire.
	7 Underlying operating profit	Profit before impairment charges, investment property revaluation movements and exceptional items.	Restore the core Society and businesses in run-off to profit.
	8 Impairment charge	Total charge for impaired residential and commercial assets.	Maintain an intensive management of the Credit risk inherent in the balance sheet.
	9 Asset composition	Proportion of mortgage assets classified as Prime residential.	Under its Back to Basics strategy, the Society will focus on prime residential mortgages.
	10 Residential arrears	Residential Mortgage balances 1.5%+ in arrears/ possession as a percentage of total book.	Maintain the quality of the Residential lending portfolio.
Customers/ People	**11** Customer satisfaction surveys	Customer satisfaction scores for each rolling three month period.	Deliver an improvement in service and access levels through the reinvigoration of the core Society.
	12 Staff satisfaction survey	Annual staff satisfaction survey scores.	Ensure that staff conditions and work load are maintained at an acceptable level.

Risk management

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

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

The principal risks inherent to our business and details of how these risks are managed are set out in the Business Review (pages 7 to 17).

In addition to these principal risks there are, 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 Society will be subject, in the same way as others within the sector, to these ongoing tests of capital, and recognise the uncertainty inherent in the process as factors within each test change.

Financial risk management objectives and policies

The 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. Governance and oversight is provided through the Group Risk and Assets & Liabilities Committees. Details of the Society's financial instruments, hedging activity and risk mitigation can be found in notes 12 and 31 to the Accounts.

Mortgage arrears

At 31 March 2011 there were 181 (2009/10: 211) residential and commercial mortgage accounts where payments were 12 months or more in arrears based on current monthly repayments. The total amount outstanding on these accounts was £37.7m (2009/10: £58.1m), representing 0.63% (2009/10: 0.91%) of mortgage balances, and the amount of arrears was £2.5m (2009/10: £3.6m). Appropriate provisions were made for potential losses on mortgages in accordance with the provisioning policy set out in note 1 to the Accounts.

Directors

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

David Huw Davies
Edwin Hucks – (to 27 July 2010)
Lesley James CBE
Andrew Jones* **–** (from 24 November 2010)
Mark Nicholls (Chairman)
Martin Ritchley
Bharat Shah – (to 27 July 2010)
Robert Sharpe*#
Richard Sommers
Jonathan Westhoff*#
Mark Gibbard* **–** (from 16 February 2011)

* = Executive Directors.
# = Robert Sharpe stepped down as Chief Executive on 25 May 2011 and was succeeded by Jonathan Westhoff.

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

Supplier payment policy

The Society's policy is to agree the terms of payment before trading with the supplier and to pay in accordance with its contractual and other legal obligations. At 31 March 2011, the creditor days figure was 22 days (2009/10: 22 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, affinity accounts and voluntary staff initiatives. These are outlined in the Corporate Responsibility Report (page 29).

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

Employees

The Group is an equal opportunities employer and gives proper consideration to all applications for employment 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.

Health and safety

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

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

The Society recognises the need to consult with its employees on health and safety issues and the rights of individuals and Trade Unions in respect of this. Accredited safety representatives will be afforded every opportunity to effect this consultation and to receive training as appropriate from their Trade Union. A Health and Safety Committee is in place with representatives from across the business which meets quarterly to review Health and Safety.

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

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

Directors' responsibilities for preparing the Annual Accounts

The following statement, which should be read in conjunction with the Independent Auditor's report on page 30, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 ('the Act') to prepare, for each financial year, 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 IFRS accounts giving a true and fair view are references to their achieving a fair presentation'.

In preparing those Annual 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts; and
- prepare the Annual Accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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

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

Directors' statement pursuant to the Disclosure and Transparency Rules

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

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group and Society; and
- the management report contained in the Business Review includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Group:

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

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Directors' responsibilities in respect of going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review on page 3 to 5.

The financial position of the Group, its capital structure and risk management and control processes for managing exposure to Credit, Market, Liquidity and Operational risk are described in the Business Review on pages 7 to 17.

In addition, note 31 to the financial statements includes further information on the Group's objectives, policies and processes for managing its exposure to liquidity, credit and interest rate risk, details of its financial instruments and hedging activities.

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

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

Auditor

The auditor, KPMG Audit Plc, 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.

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

By order of the Board.

Mark Nicholls
Chairman
25 May 2011

Directors' Report on Corporate Governance

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

Corporate Governance – a brief history

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

The current version of the Code was issued in July 2010 following the 2008/9 financial crisis and the Walker Review into the governance of banks and other financial institutions. The Walker Review identified a number of themes which should avoid the sorts of behaviours that contributed to the financial crisis. The Society has voluntarily adopted this revised UK corporate governance code.

The themes which are most relevant to building societies are:

- A greater emphasis on the 'comply or explain' (with the Code) approach;
- Boards must challenge the Executive more effectively;
- Boards must engage more in risk oversight and set up a Risk Committee; and
- There must be greater oversight of remuneration policies.

The remainder of this report explains how the Society meets the Code Principles.

The Code's Main Principles	Commentary
A1 The role of the Board "…an effective board … collectively responsible for the success of the Society."	The principal functions of the Society's Board include: • Providing entrepreneurial leadership; • Setting the Society's strategic aims and risk appetite; • Implementing and maintaining a framework of prudent and effective controls, which 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 is necessary to fulfil its responsibilities. Normally there is a minimum of eight formal meetings in a financial year. The details of Board Committee membership and the attendance records of individual Directors at the meetings held in 2010/11 is shown in the table at the end of this Report. There are a number of matters reserved to the Board, which are set out in the Board Procedures Manual.
A2 Division of Responsibilities "…clear division between the running of the board and executive"	The positions of Chairman and Chief Executive are held by different people. The main responsibilities of the Chairman and Chief Executive are set out in the Board Procedures Manual.
A3 Chairman "… responsible for leadership of the board and ensuring its effectiveness …"	The main responsibilities of the Chairman are: • Establish and develop an effective Board, including succession planning and recruitment of Non-Executive Directors; • Lead the Board as a team; • Ensure that the Board has agreed clear values and a Statement of Principles; • Plan and manage the Board's business, including ensuring that appropriate committees are established with the right objectives and membership and that the Board has the right agenda and information; • Ensure that the Board has established key priorities; • Maintain and develop a productive and open relationship with the Chief Executive, agree the Chief Executive's objectives and carry out regular appraisals. The Chairman is responsible for leading the appointment process for the Chief Executive; • Carry out appraisals of the Non-Executive Directors; • Ensure there are appropriate arrangements for the evaluation and remuneration of senior executives; • Act as an accountability focus for the Society, including chairing the Annual General Meeting; • Represent the Society with the FSA and ensure that there is an open and trustworthy relationship with the Regulator; and • Ensure that the Board and its Committees periodically evaluate their own performance. The Board has satisfied itself that both at the time of his appointment, and currently, the Chairman is independent in character and judgement and meets the independence criteria set out in the Code.
A4 Non-Executive Directors "… should constructively challenge and help develop proposals on strategy"	Non-Executive Directors (NEDs) are involved in all key Society discussions and receive detailed management information and reports to ensure they have a firm grasp of the Society's business and external operating environment. Martin Ritchley has been appointed as the Board's Senior Independent Director (he is also Deputy Chairman). The NEDs meet formally and informally without Executive Directors present. Board minutes record all material discussion and challenge.

The Code's Main Principles	Commentary
B1 The composition of the Board "… appropriate balance of skills, experience, independence and knowledge of the company …"	The Board Procedures Manual defines the qualities and business experience sought when recruiting directors. The Board operates through a number of Committees, each with defined terms of reference. Membership of the Committees is reviewed at least annually. The Board believes that all Non-Executive Directors should meet the Code's independence criteria on appointment and throughout their term of office and currently considers that all Non-Executive Directors are independent.
B2 Appointments to the Board "…formal, rigorous and transparent procedure for the appointment of new directors"	During the course of the last financial year, two Executive Director appointments were made to the Board. In each case, the appointment process was led by the Nominations Committee. The members of this Committee are all Non-Executive Directors and it is chaired by the Society's Chairman. In addition, two Non-Executive appointments which commenced in late 2010 concluded just after the end of the financial year. Each of the four newly appointed Directors were required to satisfy the FSA's fitness and propriety test and have been registered as 'Approved Persons'. In each case the Directors attended a Significant Influence Function interview with the FSA. The terms of the Executive Director appointments are described in the Remuneration Report. Both Directors are standing for election at the 2011 AGM. Both of the Non-Executive Director appointments are for a term of three years and as required by the Society's Rules will be subject to election at next year's AGM. Their letters of appointment include the time commitment expected of them and their other significant commitments were considered by the Nominations Committee as part of the selection process. The terms of reference of the Nominations Committee are available on request from the Group Secretary.
B3 Commitment "… allocate sufficient time … to discharge their responsibilities effectively"	A standard letter of appointment for Non-Executive Directors sets out the expected time commitment and explains what is required if there is any material change to their commitments.
B4 Development "…induction on joining …regularly update/ refresh skills and knowledge"	The Society has a range of induction activities and material for new NED appointments appropriate to their individual experience. These include site visits, meetings with senior management and reports/information concerning the Group's operations. During the year, Directors have received awareness training on Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA). As part of the annual Board effectiveness review, the Chairman reviews each director's training and development needs. The information provided to Directors has been subject to an ongoing review, resulting both in the upgrading and, in a number of cases, new suites of management information. The Board and its committees are serviced by the Group Secretary – a Board appointed role – who, through the Chairman, advises on governance matters and board procedures. The Board Procedures Manual documents the Group's governance arrangements.
B5 Information and Support "… supplied in a timely manner with information …"	Board and Committee meeting papers are issued so as to allow NEDs sufficient time to review and consider them. NEDs are encouraged to seek additional information and can have access to independent professional advice.
B6 Evaluation "…a formal and rigorous annual evaluation of its own performance"	The most recent formal evaluation of Board and individual Director performance commenced in late 2010 and concluded in the early part of the 2011/12 financial year. The evaluations were initiated by a questionnaire and were reviewed by the Chairman and the general output discussed with the whole Board. Specific points were fed back to individual Directors by the Chairman. Evaluation of the Chairman was conducted by the Non-Executive Directors, led by the Deputy Chairman. The conclusions were shared with the Chairman.
B7 Re-election "…re-election at regular intervals"	All new Directors are required by the Society's Rules to stand for election at the first Annual General Meeting following their appointment to the Board. In addition, Directors must seek re-election at least every three years after being first elected. A provision of the UK Code states that all directors of FTSE 350 companies should be subject to annual election. Although the Society is not a FTSE company it intends to introduce annual elections, subject to the Society's Rules, from the July 2012 AGM.
C1 Financial and Business Reporting "…balanced and understandable assessment of the Society's position and prospects"	The Directors' Report on pages 18 to 21 includes statements detailing the Directors' responsibilities. The Chief Executive's Review on pages 3 to 5 and the Business Review on pages 7 to 17, give an extensive report on the Society's performance, financial position and the key risks that will impact upon performance and risk management going forward.

The Code's Main Principles	Commentary
C2 Risk Management and Internal Control "… determining the nature and extent of the significant risks it is willing to take … maintain sound risk management and internal control systems"	The Society's Board is responsible for the development of strategies relating to risk management and internal control. Operational responsibility rests with the Executive Directors and senior managers. The risk management systems and internal controls are designed to allow the Society to achieve its corporate objectives in a controlled manner and remain within defined risk appetite statements. These systems and controls are designed to manage rather than eliminate risk. The Board reviews the effectiveness of the risk management systems and internal controls in a number of ways, including: • Board review and approval of Risk Appetite Statements at least annually, with monthly reporting of key indicators relating to those statements; • A formal committee structure, including an Audit & Compliance Committee (see below for more detail) and a Group Risk Committee – established in 2009. The minutes of the meetings of these Committees are reviewed by the full Board, the relevant Committee Chairman highlighting any key issues; • Regular reports and presentations to the Board by the Executive Directors; and • Monthly Board report on key business performance. The Society's internal audit function, with a dual reporting line to the Chief Executive and Chair of Audit & Compliance Committee provides independent assurance regarding the adequacy and effectiveness of internal controls across all Group activities.
C3 Audit Committee and Auditors "…formal and transparent arrangements"	The Board has an Audit & Compliance Committee comprising three Non-Executive Directors, all of whom are considered independent according to the criteria contained in the Code. In Huw Davies (who is currently Group 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 & Compliance Committee receives additional fees in recognition of his added responsibilities. The terms of reference of the Committee are available from the Group Secretary on request. The Society has a policy on the engagement of external auditors to supply non-audit services, which is operated across the Group and in tandem with the external auditors' own internal policy on providing non-audit services. The Society has a well established Whistleblowing Policy to enable staff to raise concerns in confidence about possible improprieties in matters of financial reporting or other issues. This policy has taken account of the Public Interest Disclosure Act 1998. During the year, the Committee received a report summarising all of the reports made under this Policy. There have been 4 meetings of the Committee during the financial year 2010/11. Executive Directors and other members of senior management (by invitation only) attended the meetings. Those employees who regularly attend include the Chief Executive, Deputy Chief Executive, Group Finance Director, Group Risk Director, Head of Internal Audit and Head of Risk and Compliance. The Board receives regular reports on Committee meetings and also receives copies of the minutes of these meetings. During the last financial year, the Audit & Compliance Committee: • Validated the integrity of the Group's financial statements (including formal announcements relating to such statements); • Reviewed and approved significant financial reporting issues and accounting policies/issues; • Reviewed the Group's internal controls; • Monitored and reviewed the Group's Internal Audit and Compliance functions; and • Recommended the reappointment of the external auditor (following a review of the external auditor's independence and objectivity and the effectiveness of the audit process), the remuneration and terms of engagement.
D1 Level and components of remuneration **D2 Procedure**	The Directors' Remuneration Report on pages 26 to 28 explains how the Society, through the Remuneration Committee and Board, approaches the remuneration of Directors and other executives.

The Code's Main Principles	Commentary
E1 Dialogue with Stakeholders "…ensuring that a satisfactory dialogue takes place"	The Society has members as opposed to shareholders. The overwhelming majority of the Society's almost 540,000 members are individuals who are also customers of the Society. Feedback from members and customers is invaluable in the operation and development of the Society and various means used for ascertaining feedback, include: • 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.
E2 Constructive use of the AGM "…communication with members and encourage their participation"	All members who are eligible to vote are sent a Summary Financial Statement and details of the Annual General Meeting (AGM). Proxy forms are also included in the AGM mailing to allow those members who do not attend the meeting to cast their vote. Members are also able to submit their proxy form electronically. The Society uses independent scrutineers to count all proxy votes. All Board members are expected to be present at the AGM each year (except in the case of unavoidable absence). The Chairmen of the Audit & Compliance, Remuneration, Group Risk and Nominations Committees are available to answer questions at the AGM. The Notice of the AGM and related papers are sent at least 21 days before the AGM in accordance with the Building Societies Act 1986.

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

Attendance Records – Board and Board Committee Meetings

	Board	Nominations	Audit & Compliance	Group Risk	Remuneration
Mark Nicholls	10 (10)	2 (2)	-	-	4 (4)
David Huw Davies	9 (10)	2 (2)	4 (4)	-	-
Mark Gibbard	2 (2)		-	1 (1)	-
Edwin Hucks	4 (4)	1 (1)	1 (1)	-	2 (2)
Lesley James CBE	9 (10)	2 (2)	-	-	4 (4)
Andrew Jones	4 (4)		-	5 (5)	-
Martin Ritchley	10 (10)	1 (1)	4 (4)	5 (5)	3 (3)
Bharat C Shah	3 (4)			-	-
Robert Sharpe	9 (10)		-	5 (5)	-
Richard F Sommers	10 (10)		2 (3)	5 (5)	2 (2)
Jonathan Westhoff	10 (10)			5 (5)	

Mark Nicholls
Chairman
25 May 2011

Directors' Remuneration Report

The purpose of this report is to inform members of the current policy for the remuneration of directors and executives, as established by the Remuneration Committee and the Board, taking into account the relevant recommendations contained in the UK Code on Corporate Governance in so far as they are considered relevant for Building Societies.

Main Code Principle: D.1 The Level and Components of Remuneration

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

The Remuneration Committee compares pay and employment conditions for Executive Directors and executives 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). Performance-related remuneration is an essential part of the reward package for Executive Directors and other executives.

The Society's remuneration arrangements are designed to align the interests of the members with the interests of the Directors and executives, and to provide a strong incentive to perform at the highest levels. All incentive schemes used by the Society are subject to challenging performance criteria reflecting the Society's objectives. The objectives for Executive Directors and executives are reviewed by the Remuneration Committee and set by the Board. Any performance-related awards are agreed by the full Board.

The main components of Executive Directors' remuneration and their contractual terms are described below:

Basic salary

The Remuneration Committee considers external data from independent national surveys and peer group building societies of similar complexity and challenge when assessing and setting basic salary levels for Executive Directors and executives. Messrs Westhoff, Gibbard and Jones were appointed to their roles during the 2010/11 financial year, the Committee is therefore satisfied that the Society is paying its most senior employees the appropriate rate for their roles.

At its meeting in March 2011 the Committee met to consider the annual review of staff salaries. The Committee recommended, and the Board subsequently agreed, that the general salary review should result in no increase in the basic salaries of Executive Directors. Other employees were awarded a 2.5% increase effective from 1 April 2011.

Performance pay

Executive Directors and executives are eligible to receive performance-related pay based on the achievement of a number of performance objectives. In March 2010, in order to meet the objective to reward performance over the longer term and mindful of the spirit of the Financial Services Authority's initial Remuneration Code, the Remuneration Committee agreed that any performance-related award should have a deferred element. Executive Directors are eligible for an award of up to 50% of salary, at the discretion of the Remuneration Committee. Half of the amount of any award is deferred for payment, subject to Remuneration Committee approval and dependant on agreed triggers before release, in two equal instalments, in May 2012 and May 2013. The undeferred element was paid in May 2011.

At meetings in March and April 2011 the Committee considered the award of performance-related pay to employees (including executives) and Executive Directors. The Committee recognised the improvement in financial performance and recommended (subsequently approved by the Board), performance-related payments to executives and Executive Directors, linked to the achievement of a range of corporate and personal objectives. A general award was made to employees, the amount payable being determined by individual performance.

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; a cash allowance instead of a pension and a lump sum of four times basic salary in the event of death in service.

Executive Director contractual terms

On 24 November 2010 the Board appointed Mr Jonathan Westhoff as Deputy Chief Executive and promoted Mr Andrew Jones from Divisional Director Risk & Group Secretary to Group Risk Director. On 24 January 2011 Mr Mark Gibbard joined the Society as Group Finance Director and was appointed to the Board on 16 February 2011.

All Executive Director appointments are made on the basis that the Director will enter into a service contract terminable on 12 months' notice to be given by the Society and no less than 6 months' notice given by the Director, with the exception of Mr Gibbard, for whom such notice cannot be served by the Society before 31 December 2011.

In certain circumstances (including a merger with a larger society) the contractual terms previously allowed for an enhanced severance payment of two years' remuneration. Messrs Sharpe and Westhoff voluntarily gave up this term on 23 November 2010. Messrs Jones and Gibbard have never had this clause in their service contract.

Mr Sharpe signed his contract on 10 October 2008 and Mr Westhoff signed his original contract on 5 May 2009 and his current contract on 25 May 2011. Messrs Jones and Gibbard signed their respective contracts on 23 November 2010. 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. During the year Mr Sharpe received £147,500 in respect of other non-executive roles.

On 31 March 2011 Mr Sharpe gave the Board notice of his intention to leave the Society. The Board agreed a leaving date of 25 May 2011 and he received no payment in lieu of notice and is not eligible for any performance-related payment for service between 1 April and 25 May 2011. The deferred element of his 2010/11 performance-related payment will be paid in May 2012 and May 2013, in accordance with the scheme rules. Mr Westhoff was appointed as Chief Executive following Mr Sharpe's departure.

Non-Executive Directors

The level of fees payable to Non-Executive Directors is set by the Chairman and Chief Executive. The review of basic fees for 2011 resulted in no increase. The fees for the Chairman are set by the Remuneration Committee at a meeting which he does not attend. New fee levels were applied from 1 April 2010 to reflect the responsibilities and time commitments required for Board and Board Sub-Committees. Additional fees are payable to the Deputy Chairman and those Non-Executive Directors who undertake the chairmanship of certain Board committees.

Non-Executive Directors do not have service contracts and are remunerated solely by fees, having no pension, benefits-in-kind or entitlement to a performance-related award.

Details of the Non-Executive and Executive Directors' emoluments are included in the tables below and overleaf.

Main Code Principle D.2: Procedure

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.

The Remuneration Committee, which is made up solely of Non-Executive Directors, has been established for a number of years. Throughout the last financial year the Committee was chaired by Mrs Lesley James, with Mr Mark Nicholls and, from 26 July 2010, Mr Martin Ritchley and Mr Richard Sommers as additional members. The terms of reference for the Remuneration Committee are available on request from the Group Risk Director.

The Committee has responsibility for recommending to the full Board the framework and outcomes for the remuneration of the Chairman, all Executive Directors and executives. The Committee is also responsible for ensuring that contractual terms on termination and any payments made are fair to the individual and to the Society.

At the Remuneration Committee's invitation, the Chief Executive, Deputy Chief Executive, Group Finance Director, Group Risk Director and Head of Human Resources attend all or part of the Remuneration Committee meetings.

The FSA Remuneration Code

The Financial Services Authority published a revised Remuneration Code in December 2010. As of January 2011 the Society is subject to the Code as a Tier 2 firm and has until July 2011 to comply with the provisions that apply to the Society. The Society has already anticipated a number of the requirements of the Code, such as deferral of performance-related pay and will be reviewing remuneration arrangements to ensure full compliance for the 2011/12 financial year.

Non-Executive Director Fees

Non-Executive Director	2010/11 Total Fees £000	2009/10 Total Fees £000
Mark Nicholls (from 1 January 2010)	100	25
Brian Woods-Scawen CBE (to 31 December 2009)	-	54
John Bywater (to 31 December 2009)	-	32
David Huw Davies	50	35
Edwin Hucks (to 27 July 2010)	22	53
Lesley James CBE	55	43
Martin Ritchley (from 1 September 2009)	64	29
Bharat Shah (to 27 July 2010)*	18	43
Richard Sommers (from 1 October 2009)	58	25
Mark Stansfeld (to 28 October 2009)	-	20
Total	**367**	359

* After ceasing to be a Non-Executive Director, Mr Shah agreed to remain as Chairman of the Society's now closed Defined Benefit Pension Scheme. He has since received £17,000 in respect of this role to 31 March 2011.

Executive Director Remuneration – 2010/11

Executive Director	Salary £000	Performance Pay* £000	Benefits in Lieu of Pension Contributions £000	Other Benefits £000	Total 2010/11 £000
Robert Sharpe**	390	98	98	28	**614**
Jonathan Westhoff	237	59	47	21	**364**
Mark Gibbard (from 16 February 2011)	28	6	6	2	**42**
Andrew Jones (from 24 November 2010)	63	12	13	7	**95**
Total 2010/11	**718**	**175**	**164**	**58**	**1,115**

* The 2010/11 figures relate to the undeferred element which was paid in May 2011. The deferred element is due to be paid in equal instalments in May 2012 and May 2013, in accordance with the performance-related scheme rules.

** Mr Sharpe resigned from the Board on 25 May 2011 and received no payments or benefits in lieu of notice, and will receive no performance pay in respect of service between 1 April 2011 – 25 May 2011.

Executive Director Remuneration – 2009/10

Executive Director	Salary £000	Performance Pay £000	Benefits in Lieu of Pension Contributions £000	Other Benefits £000	Sub Total £000	Increase in Accrued Pension £000	Total 2009/10 £000
Robert Sharpe*	390	150	98	22	660	–	660
Jonathan Westhoff* (from 5 May 2009)	203	102	40	21	366	–	366
Roger D Smith** (to 30 April 2009)	19	–	–	2	21	6	27
Gary T Cowdrill*** (to 1 May 2009)	28	–	–	2	30	5	35
Total 2009/10	640	252	138	47	1,077	11	1,088

* The performance payment paid to Robert Sharpe related to the period October 2008 - March 2010 and Jonathan Westhoff's to the period May 2009 - March 2010.

** Roger Smith resigned from the Society on 30 April 2009. In addition to the amounts shown above, £277,000 was paid to Mr Smith with respect to his resignation. The payment represents £212,000 notice pay, £49,000 severance pay, and £16,000 in respect of other benefits. Mr Smith received no performance payment nor was his pension enhanced in any way.

*** Gary Cowdrill resigned from the Society on 1 May 2009. In addition to the amounts shown above, £321,000 was paid to Mr Cowdrill with respect to his resignation. The payment represents £212,000 notice pay, £94,000 severance pay, and £15,000 in respect of other benefits. Mr Cowdrill received no performance payment nor was his pension enhanced in any way.

Lesley James CBE
Chair, Remuneration Committee
25 May 2011

Corporate Responsibility

Creating and fostering supportive relationships with the various communities we serve is a significant principle for the Society. This commitment, whether to members, staff, business partners and local communities, is influenced by a concern to conduct our social and environmental responsibilities in an ethically consistent way.

Community

As a mutual organisation, support for the community has been a lasting feature of the Society and was again evident throughout the past year. This commitment has been expressed in a variety of forms, in particular:

- Corporate support through sponsorship schemes and programmes of financial assistance;
- Organising fund-raising activities on behalf of charitable and community causes;
- Scheduled involvement by staff in assorted community projects and initiatives.

This support proved wide-ranging, encompassing several notable illustrations where the Society has helped make an impact in areas of genuine human need. For example:

- The well-established affinity arrangement with the Diocese of Lichfield (the Mercian Trust Partnership) was central in our efforts towards alleviating social deprivation and disadvantage. Such assistance was directed to grassroots projects concerned with, for example, poverty, disability, health, education, the development of children and young people, bereavement, old age and domestic violence;
- Alongside the above-mentioned Community Account, the Society has a number of other affinity relationships, representing particular interests in the fields of sport, recreation and health, as with Warwickshire Country Cricket Club, Severn Valley Railway, and an alliance account with Birmingham Children's Hospital through the Red Balloon Account. Our affinity partnerships have made up a considerable proportion of the £7m contributed by the Society to the community over the past decade;
- Each year, staff organise and take part in fund-raising activities on behalf of the Society's nominated charity, which is chosen by them. In the last year, over £15,000 was raised for Macmillan Cancer Support, which does so much to help people living with cancer;
- While the Society's nominated charity is a focal point in the staff's support for the community, they also participate in additional voluntary work on behalf of a number of local organisations. This has, for instance, included volunteering groups at Acorns Children's Hospice and the provision of specialist advice for community-based bodies, such as 6 Towns Credit Union and Greets Green Community Enterprises.

Environment

In attaining its business objectives, the Society endeavours to limit any negative impact on the environment by assessing its current carbon footprint and reducing unnecessary waste and energy. In this, the Society has been exploring several options, such as recycling, controlling paper use, storage and archiving, purchasing, as well as increasing staff awareness on green and energy issues.

In minimising its environmental effect, the Society has taken a number of measures, including:

- Representation on the Sandwell Climate Change Partnership, which consists of several key local organisations from the public and private sectors, with the shared goal of tackling the challenges faced by the borough on climate change;
- The Society's procurement policy reviews the ethical and environmental policies of potential suppliers so that they comply with the Society's specific criteria in this area. This also entails examining the supply chain and life cycle of products or services. As the Society is committed to the economic regeneration of the region, preference is given to local business partners where feasible;
- Recycling is a critical feature of the Society's commitment to sustainable development and is applied to many consumables, as in waste paper and toner cartridges. Office furniture is also recycled through the Green Works charity, which promotes the rational re-use of resources with particular benefit for smaller community organisations;
- Importantly, certain consumables, such as paper supplies, are sourced from sustainable forests with new consumables evaluated for their environmental influence.

New head office

The proposed new head office to be built on the All Saints site in West Bromwich demonstrates the Society's investment in the community and affords an excellent opportunity to strengthen our environmentally friendly practices. The project is in its early stages, but will include a 'green' transport policy while also aiming for an excellence standard according to BREEAM (Building Research Establishment Environmental Assessment), the world's leading design and assessment method for sustainable buildings.

The Society does not knowingly deal with business partners that fail to conform with the labour, health and safety, and other relevant regulations and laws in their respective countries. In this regard, the Society supports appropriate and fair rewards and acceptable working conditions within the context of local conditions.

Independent Auditor’s Report

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

We have audited the Group and Society Annual Accounts of West Bromwich Building Society for the year ended 31 March 2011 set out on pages 32 to 85. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors’ Responsibilities Statement set out on pages 20 to 21, the directors are responsible for the preparation of Annual Accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Annual Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

Scope of the audit of the Annual Accounts

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

Opinion on financial statements

In our opinion the Annual Accounts:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the Group and of the Society as at 31 March 2011 and of the income and expenditure of the Group and of the Society for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it and as regards the Group Annual Accounts, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors’ Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder.
- the information given in the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the Annual Accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

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

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

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham, B4 6GH
25 May 2011

Income Statements

for the year ended 31 March 2011

	Notes	**Group 2011 £m**	Group 2010 £m	**Society 2011 £m**	Society 2010 £m
Interest receivable and similar income	2	**214.1**	246.5	**206.0**	235.8
Interest expense and similar charges	3	**(179.7)**	(220.6)	**(174.8)**	(214.1)
Net interest receivable		**34.4**	25.9	**31.2**	21.7
Fees and commissions receivable		**5.7**	6.7	**2.7**	5.0
Other operating income/(expense)	4	**4.1**	3.7	**0.4**	(0.7)
Total operating income		**44.2**	36.3	**34.3**	26.0
Fair value (losses)/gains on financial instruments		**(9.1)**	2.7	**(9.5)**	2.6
Net realised profits	5	**15.6**	3.8	**15.6**	3.8
Total income		**50.7**	42.8	**40.4**	32.4
Administrative expenses – ongoing	6	**(36.1)**	(38.9)	**(30.4)**	(33.0)
Administrative expenses – restructuring	6	**(0.3)**	(3.3)	**(0.3)**	(3.3)
Depreciation and amortisation	17,19	**(5.0)**	(4.0)	**(5.0)**	(3.9)
Operating profit/(loss) before impairments, provisions and revaluation gains or losses		**9.3**	(3.4)	**4.7**	(7.8)
(Losses)/Gains on investment properties	18	**(1.9)**	1.4	**-**	-
Impairment of investment	15	**-**	-	**(0.6)**	(6.8)
Impairment losses on loans and advances	14	**(16.8)**	(20.6)	**(6.3)**	(1.0)
Provisions for liabilities – FSCS Levy	25	**(2.2)**	5.4	**(2.2)**	5.4
Provisions for liabilities – Other	25	**(1.5)**	(1.3)	**(1.5)**	(1.3)
Loss before tax		**(13.1)**	(18.5)	**(5.9)**	(11.5)
Taxation	9	**3.4**	7.3	**5.3**	1.0
Loss for the financial year from continuing operations		**(9.7)**	(11.2)	**(0.6)**	(10.5)
Discontinued operations					
Loss from discontinued operation	15(b)	**(0.7)**	(5.8)	**-**	-
Loss for the financial year		**(10.4)**	(17.0)	**(0.6)**	(10.5)

The 2010 results have been represented to provide comparatives for the 2 new line items included in 2011; Fair value (losses)/gains on financial instruments and Net realised profits.

The notes on pages 39 to 85 form part of these Accounts.

Statements of Comprehensive Income

for the year ended 31 March 2011

	Notes	Group 2011 £m	Group 2010 £m
Loss for the financial year		**(10.4)**	(17.0)
Other comprehensive income:			
Available for sale investments: valuation (loss)/gain taken to equity		**(1.6)**	22.4
Losses on revaluation of properties		**-**	(1.2)
Actuarial gain/(loss) on retirement benefit obligations	30	**0.7**	(6.8)
Cash flow hedge losses taken to equity		**(0.3)**	(0.1)
Tax on items taken directly to equity	29	**1.1**	(4.5)
Other comprehensive income for the financial year, net of tax		**(0.1)**	9.8
Total comprehensive income for the financial year		**(10.5)**	(7.2)

	Notes	Society 2011 £m	Society 2010 £m
Loss for the financial year		**(0.6)**	(10.5)
Other comprehensive income:			
Available for sale investments: valuation (loss)/gain taken to equity		**(1.6)**	22.4
Losses on revaluation of properties		**-**	(1.2)
Actuarial gain/(loss) on retirement benefit obligations	30	**0.7**	(6.8)
Cash flow hedge losses taken to equity		**(0.3)**	(0.1)
Tax on items taken directly to equity	29	**1.1**	(4.5)
Other comprehensive income for the financial year, net of tax		**(0.1)**	9.8
Total comprehensive income for the financial year		**(0.7)**	(0.7)

The notes on pages 39 to 85 form part of these Accounts.

Statements of Financial Position

at 31 March 2011

	Notes	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Assets					
Cash and balances with the Bank of England	10	**385.4**	9.6	**385.4**	9.6
Loans and advances to credit institutions		**124.7**	192.9	**50.2**	108.4
Investment securities: Available for sale	11	**918.6**	1,449.2	**2,084.0**	2,630.5
Derivative financial instruments	12	**73.4**	78.4	**86.8**	96.0
Loans and advances to customers	13	**5,880.1**	6,437.0	**2,111.4**	2,351.7
Current tax assets		**1.9**	2.2	**2.2**	1.0
Deferred tax assets	20	**23.8**	20.1	**11.2**	4.6
Trade and other receivables	21	**5.8**	6.2	**3.0**	5.1
Investments	15	**-**	-	**2,498.3**	2,734.1
Intangible assets	16,17	**7.2**	7.2	**6.6**	6.6
Investment properties	18	**113.7**	116.0	**-**	-
Property, plant and equipment	19	**12.6**	14.6	**12.5**	14.5
Retirement benefit assets	30	**1.8**	-	**1.8**	-
		7,549.0	8,333.4	**7,253.4**	7,962.1
Held for sale	15	**-**	2.2	**-**	-
Total assets		**7,549.0**	8,335.6	**7,253.4**	7,962.1
Liabilities					
Shares	22	**5,711.9**	6,544.1	**5,711.9**	6,544.1
Amounts due to credit institutions		**64.3**	92.6	**64.3**	92.6
Amounts due to other customers		**131.6**	144.3	**131.6**	144.3
Derivative financial instruments	12	**79.8**	96.7	**66.5**	78.6
Debt securities in issue	23	**1,025.3**	911.3	**747.8**	570.7
Deferred tax liabilities	20	**6.2**	6.9	**1.7**	1.4
Trade and other payables	24	**18.6**	16.2	**14.1**	13.0
Provisions for liabilities	25	**6.8**	6.0	**6.8**	6.0
Retirement benefit obligations	30	**-**	2.0	**-**	2.0
		7,044.5	7,820.1	**6,744.7**	7,452.7
Held for sale	15	**-**	0.5	**-**	-
Total liabilities		**7,044.5**	7,820.6	**6,744.7**	7,452.7
Equity					
Profit participating deferred shares	27	**177.3**	179.9	**177.3**	179.9
Subscribed capital	26	**74.9**	74.9	**74.9**	74.9
General reserves		**251.3**	258.5	**255.5**	252.9
Revaluation reserve		**3.7**	3.8	**3.7**	3.8
Available for sale reserve		**(2.6)**	(2.3)	**(2.6)**	(2.3)
Cash flow hedging reserve		**(0.1)**	0.2	**(0.1)**	0.2
Total equity attributable to members		**504.5**	515.0	**508.7**	509.4
Total liabilities and equity		**7,549.0**	8,335.6	**7,253.4**	7,962.1

The accounting policies and notes on pages 39 to 85 form part of these accounts.
Approved by the Board of Directors on 25 May 2011 and signed on its behalf by:

Mark Nicholls
Chairman

Jonathan Westhoff
Chief Executive

Mark Gibbard
Group Finance Director

Statements of Changes In Members' Interest

for the year ended 31 March 2011

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

for the year ended 31 March 2010

Group	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
Balance as at 1 April 2009	-	74.9	278.3	4.6	(17.9)	0.3	340.2
Issue of equity instrument	184.1	-	-	-	-	-	184.1
Loss for the financial year	(4.2)	-	(12.8)	-	-	-	(17.0)
Other comprehensive income for the period							
Available for sale investments: valuation gain taken to equity	-	-	-	-	15.6	-	15.6
Losses on revaluation of properties	-	-	-	(0.8)	-	-	(0.8)
Actuarial loss on retirement benefit obligations	-	-	(4.9)	-	-	-	(4.9)
Cash flow hedge losses taken to equity	-	-	-	-	-	(0.1)	(0.1)
Total other comprehensive income	-	-	(4.9)	(0.8)	15.6	(0.1)	9.8
Total comprehensive income for the year	(4.2)	-	(17.7)	(0.8)	15.6	(0.1)	(7.2)
Interest on subscribed capital	-	-	(2.1)	-	-	-	(2.1)
Balance as at 31 March 2010	179.9	74.9	258.5	3.8	(2.3)	0.2	515.0

Under the terms of the Profit Participating Deferred Shares (PPDS), 25% of the annual post tax profits or (losses) are allocated against the PPDS reserve.
The notes on pages 39 to 85 form part of these Accounts.

Statements of Changes In Members' Interest

for the year ended 31 March 2011

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

for the year ended 31 March 2010

Society	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
Balance as at 1 April 2009	-	74.9	266.2	4.6	(17.9)	0.3	328.1
Issue of equity instrument	184.1	-	-	-	-	-	184.1
Loss for the financial year	(4.2)	-	(6.3)	-	-	-	(10.5)
Other comprehensive income for the period							
Available for sale investments: valuation gain taken to equity	-	-	-	-	15.6	-	15.6
Losses on revaluation of properties	-	-	-	(0.8)	-	-	(0.8)
Actuarial loss on retirement benefit obligations	-	-	(4.9)	-	-	-	(4.9)
Cash flow hedge losses taken to equity	-	-	-	-	-	(0.1)	(0.1)
Total other comprehensive income	-	-	(4.9)	(0.8)	15.6	(0.1)	9.8
Total comprehensive income for the year	(4.2)	-	(11.2)	(0.8)	15.6	(0.1)	(0.7)
Interest on subscribed capital	-	-	(2.1)	-	-	-	(2.1)
Balance as at 31 March 2010	179.9	74.9	252.9	3.8	(2.3)	0.2	509.4

Under the terms of the Profit Participating Deferred Shares (PPDS), 25% of the annual post tax profits or (losses) are allocated against the PPDS reserve.
The notes on pages 39 to 85 form part of these Accounts.

Statements of Cash Flows

for the year ended 31 March 2011

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Net cash outflow from operating activities (see overleaf)	**(368.8)**	(372.2)	**(673.2)**	(605.3)
Cash flows from investing activities				
Purchase of investment securities	**(3,756.7)**	(5,545.5)	**(3,756.7)**	(5,544.0)
Proceeds from disposal of investment securities	**3,781.9**	5,476.6	**3,797.8**	5,476.6
Purchase of property, plant and equipment and intangible assets	**(4.4)**	(4.5)	**(4.4)**	(4.4)
Proceeds from disposal of property, plant and equipment	**1.7**	0.2	**1.7**	0.1
Purchase of investment property	**(0.3)**	(0.4)	**-**	-
Proceeds from disposal of investment properties	**0.7**	0.2	**-**	-
Purchase of shares in subsidiary undertaking	**-**	-	**-**	0.6
New funding to subsidiaries	**-**	-	**13.6**	(42.6)
Repayment of funding from subsidiaries	**-**	-	**222.2**	213.7
Net cash flows from investing activities	**22.9**	(73.4)	**274.2**	100.0
Cash flows from financing activities				
Interest paid on subordinated liabilities	**-**	(3.1)	**-**	(3.1)
Dividend paid on subscribed capital	**-**	(2.1)	**-**	(2.1)
Issue of other debt securities	**216.0**	36.4	**216.0**	36.4
Repayment of mortgage backed loan notes	**(63.1)**	(48.0)	**-**	-
Net cash flows from financing activities	**152.9**	(16.8)	**216.0**	31.2
Net decrease in cash	**(193.0)**	(462.4)	**(183.0)**	(474.1)
Cash and cash equivalents at beginning of year	**768.2**	1,230.6	**683.7**	1,157.8
Cash and cash equivalents at end of year	**575.2**	768.2	**500.7**	683.7

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

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Cash in hand (including Bank of England reserve account)	**379.6**	3.1	**379.6**	3.1
Loans and advances to credit institutions	**124.7**	192.9	**50.2**	108.4
Investment securities	**70.9**	572.2	**70.9**	572.2
	575.2	768.2	**500.7**	683.7

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2011, amounted to £5.8m (2009/10: £6.5m). The movement in this balance is included within loans and advances to credit institutions.

Statements of Cash Flows (continued)

for the year ended 31 March 2011

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Cash flows from operating activities				
Loss on ordinary activities before tax from continuing activities	**(13.1)**	(18.5)	**(5.9)**	(11.5)
Loss on ordinary activities before tax from discontinued activities	**(0.7)**	(5.8)	**-**	-
Movement in prepayments and accrued income	**0.4**	2.1	**0.3**	2.2
Movement in accruals and deferred income	**(3.1)**	(5.5)	**(1.8)**	(5.5)
Impairment losses on loans and advances	**16.8**	20.6	**6.3**	1.0
Goodwill impairment	**-**	4.9	**-**	-
Depreciation and amortisation	**5.0**	4.0	**5.0**	3.9
Interest on subordinated liabilities	**-**	3.1	**-**	3.1
Disposal of fixed assets and investment properties	**(0.4)**	-	**(0.4)**	-
Revaluations of investment properties, land and buildings	**1.9**	(1.4)	**-**	-
Movement in provisions for liabilities	**0.8**	(6.2)	**0.8**	(6.2)
Movement in derivative financial instruments	**(11.9)**	(44.9)	**(2.8)**	(37.3)
Movement in fair value adjustments for hedged risk	**11.9**	(5.1)	**(3.1)**	23.0
Change in retirement benefit obligations	**(3.1)**	(6.4)	**(3.1)**	(6.4)
Cash flows from operating activities before changes in operating assets and liabilities	**4.5**	(59.1)	**(4.7)**	(33.7)
Movement in loans and advances to customers	**518.0**	482.3	**226.8**	249.0
Movement in shares	**(831.8)**	(10.9)	**(831.8)**	(10.9)
Movement in deposits and other borrowings	**(70.4)**	(793.5)	**(70.4)**	(808.1)
Movement in trade and other receivables	**(0.2)**	2.0	**2.5**	3.2
Movement in trade and other payables	**11.1**	(1.9)	**4.2**	(8.6)
Tax received	**-**	8.9	**0.2**	3.8
Net cash outflow from operating activities	**(368.8)**	(372.2)	**(673.2)**	(605.3)

The notes on pages 39 to 85 form part of these Accounts.

Notes to the Accounts for the year ended 31 March 2011

1. Accounting Policies

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

Basis of preparation

The Annual Accounts of the Group and the Society have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the EU and effective at 31 March 2011; and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Building Societies Act 1986 applicable to societies reporting under IFRS.

The Annual Accounts have been prepared under the historical cost convention as modified by the revaluation of Available for sale assets, Derivatives, Investment properties, Property, Plant & Equipment and other financial assets at fair value through profit or loss.

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

Going concern

The Directors have prepared forecasts for the Group, including its capital position, for a period in excess of 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 using stress testing and scenario analysis techniques. The resultant forecasts and projections show that the Group will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

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

Accounting developments

The following Accounting Standard amendments have been applied for the first time in 2010/11:

Development	Effective date	Impact
IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements',	Annual reporting period beginning on or after 1 July 2009.	The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Income Statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. This has not had any impact during the current year as it is not applied retrospectively to prior period acquisitions. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. There has been no impact of IAS 27 (revised) on the current period, as none of the non-controlling interests have a deficit balance. During the period, there have been no transactions whereby an interest in an entity in the manner described in the standard is retained after the loss of control of that entity; there have been no transactions with non-controlling interests.
Eligible Hedged Items (Amendment to IAS39, Financial Instruments: Recognition and Measurement)	Annual periods beginning on or after 1 July 2009.	The amendment provides guidance for two situations. Firstly, on the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. Secondly, the designation of inflation as a hedged risk or portion is not permitted unless in particular situations. Neither will give rise to any changes to the Group's financial statements.
IAS 36 (amendment), 'Impairment of assets'	Annual periods beginning on or after 1 January 2010.	The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). As the Group has very little goodwill, this has had minimal impact.

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 April 2011 or later periods and would be relevant to the Group:

Development	Impact
IFRS 9, 'Financial instruments part 1: Classification and measurement' (not yet endorsed by the EU)	This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.
Revised IAS 24 (revised), 'Related party disclosures'	Issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 April 2011. When the revised standard is applied, the Group and the parent will need to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information.
IFRIC 19, 'Extinguishing financial liabilities with equity instruments'	Effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 April 2011, subject to endorsement by the EU. It is not expected to have any impact on the Group or the parent entity's financial statements.
IFRS7 Transfers of Financial Assets (Amendments to IFRS 7)	The Amendments require additional disclosures about transfers of financial assets, e.g. securitisations and should enable users to understand the possible effects of any risks that may remain with the transferor. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. As the Group currently has a number of securitisations this could have an impact on the accounting treatment of these asset transfers.

The Group did not early-adopt any of the above in the 2011 financial year.

1. Accounting Policies (continued)

Basis of consolidation

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

Subsidiaries

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

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

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

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

Securitisation transactions

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

Assets held for sale and discontinued operations

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

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

Segmental reporting

The Group adopted IFRS 8, 'Operating Segments', on 1 April 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. In terms of the Group, the chief operating decision maker has been deemed to be the Board of Directors.

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

Information regarding the results of each reportable segment is included in note 34.

Interest receivable and expense

Interest receivable and expense are recognised in the Income Statement for all instruments measured at amortised cost or available-for-sale using the effective interest 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 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 receivable and payable

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

Investment properties

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

Financial instruments

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

a) Financial assets

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

Financial Assets at fair value through profit or loss

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

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

In accordance with its treasury policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes.

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

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

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

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

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

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

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

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

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

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

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

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

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

Available for sale (AFS)

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

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

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

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

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

Loans and receivables

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

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

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

1. Accounting Policies (continued)

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

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

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

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

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

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

c) Financial instruments designated at fair value through profit and loss
Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated by management. The Group may designate financial instruments at fair value when the designation:

- eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets or financial liabilities, or recognising gains and losses on them, on different bases. Under this criteria, the main classes of financial instruments designated by the Group are:
- the assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

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

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

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

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

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

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

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

Where the Group determines that there is objective evidence of impairment or that trigger events exist at the year end date, then, in the case of Available for sale instruments, the cumulative 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.

Forbearance strategies and renegotiated loans

A range of forbearance strategies are employed in order to work with our borrowers to control arrears and, wherever possible, avoid repossession. Our policies and practices are based on criteria which, in the judgement of senior management, indicate that repayment is likely to continue. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, capitalisation of arrears, and other modifications and loan restructures. These management policies and practices typically provide the customer with terms and conditions that are more favourable than those initially provided.

Our credit risk management policy sets out restrictions on the number and frequency of restructures and the number of qualifying payments that must be received before an account may be considered restructured and up-to-date even if arrears are still outstanding. The application of this policy varies according to the nature of the market, the product and the management of customer relationships through the occurrence of exceptional events.

Loans that are subject to restructuring may only be classified as restructured and up-to-date once a specified number and/or amount of qualifying payments have been received. These qualifying payments are set at a level appropriate to the nature of the loan and the customer's ability to make the repayment going forward. Typically the receipt of six months qualifying payments is required. Loans that have been restructured and would otherwise have been past due or impaired are classified as renegotiated.

The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans on the basis of new contractual terms following renegotiation.

e) Derecognition of financial assets and liabilities

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

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

f) Determination of fair value

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

i) For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

   This includes listed equity securities and quoted debt instruments on major exchanges (for example, FTSE, NYSE) and broker quotes from Bloomberg and Reuters.

   A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

iii) For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

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

Intangible assets

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, joint ventures, associates or businesses represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition. In accordance with IFRS 3, Business Combinations, goodwill is not systematically amortised but is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised in the Income Statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's applicable cash generating units. Each unit is tested at least annually and reviewed for impairment indicators at each reporting date, with a further impairment test performed if indicators deem necessary. The impairment test compares the carrying value of goodwill to the higher of its fair value less costs of sale and its value in use. The value in use calculations are carried out by discounting the future cash flows of the cash generating unit. Future cash flows are based upon approved profit budgets for the next five years (adjusted for non-cash items) and assumed growth thereafter for the next 10 years in line with the Bank of England's long-term target for inflation. The Group estimates the discount rate based on current costs of capital adjusted for the risks inherent in each cash generating unit. A 15-year time horizon has been used to reflect that cash generating units are held for the long-term.

On the sale of a subsidiary undertaking, the profit or loss on sale is calculated after charging or crediting the net book value of any related goodwill.

Negative goodwill arising on an acquisition would be recognised directly in the Income Statement.

Computer software

Computer software which is not an integral part of the related hardware is recorded as an intangible asset. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Intangible assets are held at amortised cost, amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of 3-7 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	up to 50 years
Short Leasehold properties	Annual instalments over the period of the lease
Equipment, Fixtures & Fittings and motor vehicles	
• Office equipment	3 to 7 years
• Computer equipment	3 to 7 years
• Motor vehicles	25% per annum reducing balance
• Refurbishments	5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

Leases

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

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

Foreign currency translation

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash comprises cash in hand and loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value, with original maturities of 90 days or less.

Taxation

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

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

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

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

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

Provisions

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

Employee benefits

The Group provides both a defined benefit scheme (closed to new employees and accruals from 2009/10) and a defined contribution scheme on behalf of staff and Directors. The defined benefit scheme is funded by contributions 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 year end date and the liabilities are measured using the projected unit valuation method, by qualified actuaries, discounted using a corporate bond rate. The resulting pension scheme surplus or deficit is recognised immediately in the Statement of Financial Position, net of deferred tax.

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

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

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

Critical accounting estimates and judgements in applying accounting policies

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

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

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

Impairment losses on loans and advances
The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgement. Provisions are calculated using historic default and loss experience, but require judgement to be exercised in predicting economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time before impairments are identified (emergence period). The most critical estimate is of the level of house prices where a variance of 10% equates to £3.5m of provision. Other sensitivities include the emergence period, where a variance of six months equates to £0.4m, and the loss given default rate, where a 10% variance equates to £1.3m of provision.

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

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

Were the average lives of the mortgages to increase by 5%, the carrying value of mortgages would change by £2.3m 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 £5.7m with a corresponding change to income.

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

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

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

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

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

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

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

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

The recognition of the deferred tax asset is dependent upon the projection of future taxable profits and future reversals of existing taxable temporary differences and it is necessary for management to evaluate whether the deferred tax asset has arisen due to temporary factors or is instead indicative of a permanent decline in earnings.

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

Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets and it is on this basis that the deferred tax assets have been recognised. Deferred tax has been recognised at 26%, being the rate substantively enacted at the date of the Statement of Financial Position.

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

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

Details of the Group's securitisation activities are given in note 13.

2. Interest receivable and similar income

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
On loans fully secured on residential property	**143.7**	174.3	**75.1**	95.6
On other loans				
Connected undertakings	**-**	-	**101.4**	116.8
Loans fully secured on land	**51.7**	63.2	**-**	-
On investment securities	**18.4**	21.8	**30.0**	39.0
On other liquid assets	**1.4**	2.6	**0.6**	2.0
Net expense on derivative financial instruments	**(1.1)**	(15.4)	**(1.1)**	(17.6)
Total interest income	**214.1**	246.5	**206.0**	235.8
Interest receivable includes:				
Income from fixed income securities	**15.8**	19.4	**15.8**	19.4

Included within interest receivable and similar income is interest accrued on impaired financial assets: Group £4.6m (2009/10: £6.5m) and Society £2.1m (2009/10: £2.6m).

3. Interest expense and similar charges

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
On shares held by individuals	**155.8**	191.7	**155.8**	191.7
On subordinated debt	**-**	3.1	**-**	3.1
On deposits from banks and other deposits	**32.0**	29.9	**27.1**	23.4
Net expense on derivative financial instruments	**(8.1)**	(4.1)	**(8.1)**	(4.1)
Total interest expense	**179.7**	220.6	**174.8**	214.1

4. Other operating income/(expense)

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Other operating income/(expense) includes:				
Rent receivable	**3.7**	3.9	**0.1**	0.1
Pension fund cost (note 30)	**0.4**	(0.5)	**0.4**	(0.5)
Other	**-**	0.3	**(0.1)**	(0.3)
Total other operating income/(expense)	**4.1**	3.7	**0.4**	(0.7)

5. Net realised profits

Net realised profits from the sale of treasury instruments arising in response to the Society being required to periodically sell a proportion of its liquid assets to prove that they remain liquid and, in addition, by taking opportunities to realise an improvement in the underlying market value of assets without impacting the core business. By their nature these sources of income are highly variable. To reflect the new line item on the face of the Income Statement, £3.8m has been transferred out of prior year 'Interest receivable and similar income' and presented within 'Net realised profits'.

6. Administrative expenses

	Group 2011 £m	Group 2010 £m	**Society 2011 £m**	Society 2010 £m
Staff costs				
Wages and salaries	**19.8**	23.2	**19.5**	22.7
Social security costs	**2.0**	2.2	**2.0**	2.2
Other pension costs	**1.0**	1.2	**1.0**	1.2
Rental charges payable under operating leases	**0.4**	1.4	**0.4**	0.8
Other administrative expenses	**13.2**	14.2	**7.8**	9.4
	36.4	42.2	**30.7**	36.3

Wages and salaries in 2011 includes £0.3m (2009/10: £3.3m) redundancy costs paid as part of the restructuring and rationalisation of the Group's cost base.

Other administrative expenses include:				
Remuneration of auditors and their associates (excl VAT):				
Audit of these financial statements	**0.1**	0.1	**0.1**	0.1
Audit of the subsidiary financial statements	**0.1**	0.1	**-**	-

7. Employee numbers

	Group 2011	Group 2010	**Society 2011**	Society 2010
The average number of employees employed throughout the year was:				
Full time	**614**	694	**598**	664
Part time	**156**	177	**149**	166
	770	871	**747**	830
Building Society				
Central administration	**468**	508	**469**	507
Branches	**278**	323	**278**	323
Subsidiaries	**24**	40	**-**	-
	770	871	**747**	830

8. Directors' emoluments

Total Directors' emoluments amounted to £1.482m (2009/10: £2.045m). Full details are given in the Directors' Remuneration Report on pages 26 to 28.

9. Taxation

	Group 2011 £m	Group 2010 £m	**Society 2011 £m**	Society 2010 £m
UK Corporation tax at 28%	**-**	(0.9)	**-**	0.2
Corporation tax – adjustment in respect of prior years	**0.9**	(1.2)	**0.8**	(3.6)
Total current tax	**0.9**	(2.1)	**0.8**	(3.4)
Deferred tax				
Current year	**(3.4)**	(5.9)	**(0.5)**	(1.4)
Adjustment in respect of prior periods	**(0.9)**	0.7	**(5.6)**	3.8
Tax on loss on ordinary activities	**(3.4)**	(7.3)	**(5.3)**	(1.0)

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

9. Taxation (continued)

Further information about deferred income tax is presented in note 20. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the standard rate of tax:

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Loss before tax	**(13.8)**	(24.3)	**(5.9)**	(11.5)
Loss before tax multiplied by the standard rate of tax	**(3.8)**	(6.8)	**(1.6)**	(3.2)
Effects of:				
Expenses not deductible for tax purposes	**(0.4)**	0.2	**0.5**	2.0
Effect of changes to tax rate	**1.3**	-	**0.7**	-
Non taxable income	**(0.1)**	(0.2)	**(0.1)**	-
Adjustment in respect of prior years	**-**	(0.5)	**(4.8)**	0.2
Revaluation	**(0.4)**	-	**-**	-
Tax credit	**(3.4)**	(7.3)	**(5.3)**	(1.0)

10. Cash and balances with the Bank of England

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Cash in hand	**2.0**	3.1	**2.0**	3.1
Mandatory reserve with central banks	**5.8**	6.5	**5.8**	6.5
Other deposits with central banks	**377.6**	-	**377.6**	-
	385.4	9.6	**385.4**	9.6

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

11. Investment securities

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Investment securities: Available for sale:				
listed	**853.5**	1,214.3	**2,018.9**	2,395.6
unlisted	**65.1**	234.9	**65.1**	234.9
Total securities: Available for sale	**918.6**	1,449.2	**2,084.0**	2,630.5

Investment securities are stated at fair value in accordance with IAS39. For details of the gains or losses from sale of Available for sale financial assets see note 5.

The movement in investment securities may be summarised as follows:

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
At 1 April	**1,449.2**	1,695.1	**2,630.5**	2,877.9
Additions	**3,252.9**	5,208.3	**3,252.9**	5,208.3
Disposals (sale and redemption)	**(3,781.9)**	(5,476.6)	**(3,797.8)**	(5,478.1)
(Losses)/Gains from changes in fair value	**(1.6)**	22.4	**(1.6)**	22.4
At 31 March	**918.6**	1,449.2	**2,084.0**	2,630.5

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 2011, £210.3m (2009/10: £86.8m) 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 note 31 'Financial Instruments'. The fair values at 31 March 2011 of derivative instruments held are set out below:

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

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

Group – 2010	Notional principal amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Derivatives held for hedging			
Derivatives designated as fair value hedges	2,806.4	34.3	(88.4)
Derivatives designated as cash flow hedges	40.8	13.1	-
Other derivatives held for hedging	417.6	31.0	(8.3)
Total derivative assets/(liabilities) held for hedging	3,264.8	78.4	(96.7)

Society – 2010	Notional principal amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Derivatives held for hedging			
Derivatives designated as fair value hedges	2,189.5	34.3	(61.6)
Derivatives designated as cash flow hedges	40.8	13.1	-
Other derivatives held for hedging	998.3	48.6	(17.0)
Total derivative assets/(liabilities) held for hedging	3,228.6	96.0	(78.6)

13. Loans and advances to customers

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Loans and receivables				
Loans fully secured on residential property	**4,692.5**	5,067.5	**2,102.6**	2,336.2
Other loans				
Loans fully secured on land	**1,193.7**	1,331.6	**26.4**	27.9
Other loans	**0.2**	0.2	**-**	-
	5,886.4	6,399.3	**2,129.0**	2,364.1
At fair value through profit and loss				
Other loans				
Loans fully secured on land (note 28)	**84.9**	121.7	**-**	-
	5,971.3	6,521.0	**2,129.0**	2,364.1
Less: impairment provisions	**(91.2)**	(84.0)	**(17.6)**	(12.4)
	5,880.1	6,437.0	**2,111.4**	2,351.7

The net profit on loans and advances which are designated as Fair value through profit and loss was £nil (2009/10: £nil).

Included within Loans and Advances to customers are £288.0m (2009/10: £367.9m) 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 subordinated 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 subordinated loans, fees for managing the loans and will earn deferred consideration once the cash flows generated by the SPEs have been used to pay interest and capital to the holders of the MBS's. Since the Group maintains substantially all of the risks (key risk being an exposure to credit risk through the subordinated loan agreements) and rewards emanating from the commercial mortgages, they have been retained on the Group's Statement of Financial Position in accordance with IAS 39. A further £177.1m commercial and £977.8m residential mortgage balances have been sold to bankruptcy remote SPEs where the loan notes have been retained by the West Bromwich Building Society.

14. Allowance for losses on loans and advances

Group	**Loans fully secured on residential property** Individual £m	Collective £m	**Loans fully secured on land** Individual £m	Collective £m	**Total** Individual £m	Collective £m	**Total £m**
At 1 April 2010	33.4	5.2	32.2	13.2	65.6	18.4	**84.0**
Amounts written off	(4.9)	-	(4.7)	-	(9.6)	-	**(9.6)**
Charge/(Credit) for the year comprises:							
Provision/(Release) for loan impairment	2.2	4.6	15.7	(4.1)	17.9	0.5	**18.4**
Adjustments to provisions resulting from recoveries	(1.6)	-	-	-	(1.6)	-	**(1.6)**
Charge/(Credit) for the year	0.6	4.6	15.7	(4.1)	16.3	0.5	**16.8**
As at 31 March 2011	**29.1**	**9.8**	**43.2**	**9.1**	**72.3**	**18.9**	**91.2**

Included within loans fully secured on residential property are loans originated through the commercial division. As at 31 March 2011, the provision against these loans totalled £8.6m (2009/10: £13.0m), with a net release for the year of £2.9m (2009/10: £12.4m). The total provision balance relating to the commercial division is thus £60.9m (2009/10: £58.4m), with a charge for the year of £8.7m (2009/10: £15.7m).

Society	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Total £m
At 1 April 2010	11.8	0.6	-	-	11.8	0.6	**12.4**
Amounts written off	(1.1)	-	-	-	(1.1)	-	**(1.1)**
Charge for the year comprises:							
Provision for loan impairment	2.1	5.0	-	-	2.1	5.0	**7.1**
Adjustments to provisions resulting from recoveries	(0.8)	-	-	-	(0.8)	-	**(0.8)**
Charge for the year	1.3	5.0	-	-	1.3	5.0	**6.3**
As at 31 March 2011	**12.0**	**5.6**	-	-	**12.0**	**5.6**	**17.6**

Group	Loans fully secured on residential property Individual £m	Collective £m	Loans fully secured on land Individual £m	Collective £m	Total Individual £m	Collective £m	Total £m
At 1 April 2009	29.4	3.1	31.8	17.9	61.2	21.0	82.2
Amounts written off	(11.2)	-	(7.6)	-	(18.8)	-	(18.8)
Charge/(Release) for the year comprises:							
Provision/(Release) for loan impairment	15.9	2.1	8.0	(4.7)	23.9	(2.6)	21.3
Adjustments to provisions resulting from recoveries	(0.7)	-	-	-	(0.7)	-	(0.7)
Charge/(Release) for the year	15.2	2.1	8.0	(4.7)	23.2	(2.6)	20.6
As at 31 March 2010	33.4	5.2	32.2	13.2	65.6	18.4	84.0

Society	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Total £m
At 1 April 2009	14.8	0.5	-	-	14.8	0.5	15.3
Amounts written off	(3.9)	-	-	-	(3.9)	-	(3.9)
Charge for the year comprises:							
Provision for loan impairment	1.1	0.1	-	-	1.1	0.1	1.2
Adjustments to provisions resulting from recoveries	(0.2)	-	-	-	(0.2)	-	(0.2)
Charge for the year	0.9	0.1	-	-	0.9	0.1	1.0
As at 31 March 2010	11.8	0.6	-	-	11.8	0.6	12.4

15. Investments

a) Subsidiary undertakings

	Society 2011 £m	Society 2010 £m
Shares held in subsidiary undertakings	**0.6**	0.6
Loans to subsidiary undertakings	**2,497.7**	2,733.5
	2,498.3	2,734.1

During the year the Society sold its interest in the Mortgage Force Limited subsidiary which resulted in a write off of the investment carrying value of £0.6m (2009/10: £6.8m).

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

	Society £m
At 1 April 2010	2,733.5
Decrease in loans to subsidiaries	(235.8)
At 31 March 2011	**2,497.7**

All subsidiary loans are provided at open market rates.

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

Name	Major activities	Class of shares held	Interest of Society
West Bromwich Mortgage Company Limited	Hold and dispose of debts secured on land and lend money on the security of land	Ordinary £1 shares	100%
West Bromwich Commercial Limited	Commercial lending	Ordinary £1 shares	100%
WBBS Computer Finance Limited	Leasing and licensing computer equipment	Ordinary £1 shares	100%
CL Mortgages Limited (1)	Hold and dispose of debts secured on land and lend money on the security of land	Ordinary £1 shares	100%
West Bromwich Homes Limited	Investment in property for rental	Ordinary £1 shares	100%
West Bromwich Financial Planning Limited	Financial services product vendor	Ordinary £1 shares	100%
Insignia Finance Limited	Second charge lending	Ordinary £500 shares	100%
White Label Lending Limited (2)	Second charge lending	Ordinary £1 shares	100%

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	United Kingdom	Securitisation entity
Sandwell Finance Holdings Limited	United Kingdom	Holding company
Sandwell Commercial Finance No 2 Plc	United Kingdom	Securitisation entity
Hawthorn Hold Co Limited	United Kingdom	Holding company
Hawthorn Asset Co Limited	United Kingdom	Securitisation entity
Hawthorn Finance Limited	Jersey	Securitisation entity
Sandwell Commercial Finance No.3 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 the United Kingdom 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.

15. Investments (continued)

b) Disposal of subsidiary

During the year the Group disposed of its entire holding in Mortgage Force Limited for a total consideration of £1. The results and loss arising from this sale have been disclosed as discontinued in the Income Statement and Statement of Comprehensive Income.

An analysis of the contribution made by Mortgage Force and the impact of the sale of the subsidiary is shown in the table below and the assets and liabilities are disclosed on the face of the Statement of Financial Position. Included in the Statement of Financial Position for the year 31 March 2010 are assets of £2.2m and liabilities of £0.5m that are held for sale and relate to the Mortgage Force Limited discontinued subsidiary.

	2011 £m	2010 £m
Fees and commissions receivable	**0.5**	2.4
Fees and commissions payable	**(0.4)**	(1.9)
Other operating income	**0.8**	-
Total operating income	**0.9**	0.5
Administrative expenses	**(0.2)**	(0.9)
Depreciation and amortisation	**-**	(0.5)
Impairment of investments	**(1.4)**	(4.9)
Loss before tax	**(0.7)**	(5.8)
Taxation	**-**	-
Loss for the year	**(0.7)**	(5.8)

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

	2011 £m	2010 £m
Net cash flows from operating activities	**(0.7)**	(5.8)
Net cash flows from investing activities	**0.7**	0.3
Net cash flows from discontinued activities	**-**	(5.5)

16. Goodwill

	Group 2011 £m	Group 2010 £m
Cost		
At 1 April	**7.9**	7.3
Additions in the period	**-**	0.6
Write-offs	**(7.3)**	-
At period end	**0.6**	7.9
Aggregate impairment		
At 1 April	**7.3**	2.4
Impairment for the year	**-**	4.9
Write-offs	**(7.3)**	-
At period end	**-**	7.3
Net book value at 31 March	**0.6**	0.6

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.

The write-off in the year related to the disposal of Mortgage Force Limited (see note 15b) for more details.

The recoverable amount of the remaining cash-generating unit (Insignia Limited) has been based upon the future earnings and based upon value in use calculations.
The calculations use cash flow projections based upon the three 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% (2009/10: 3%)), reflecting the long term nature of the business 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 2011 (2009/10: 12.5%), reflecting management's required return from such CGU.

17. Intangible assets

Group	Computer software 2011 £m	Total 2011 £m	Computer software 2010 £m	Brand name 2010 £m	Total 2010 £m
Cost					
At beginning of year	11.4	**11.4**	13.1	0.6	13.7
Additions	2.1	**2.1**	2.6	-	2.6
Transfers	-	**-**	(4.2)	-	(4.2)
Disposals	(0.2)	**(0.2)**	(0.1)	-	(0.1)
Impairment	-	**-**	-	(0.6)	(0.6)
At end of year	**13.3**	**13.3**	11.4	-	11.4
Aggregate amortisation					
At beginning of year	4.8	**4.8**	7.4	0.1	7.5
Transfers	-	**-**	(4.1)	-	(4.1)
Charge for the year	1.9	**1.9**	1.6	-	1.6
Disposals	-	**-**	(0.1)	-	(0.1)
Impairment	-	**-**	-	(0.1)	(0.1)
At end of year	**6.7**	**6.7**	4.8	-	4.8
Net book value at end of year	**6.6**	**6.6**	6.6	-	6.6
Net book value at beginning of year	6.6	**6.6**	5.7	0.5	6.2

Society	Computer software 2011 £m	Total 2011 £m	Computer software 2010 £m	Total 2010 £m
Cost				
At beginning of year	11.4	**11.4**	13.0	13.0
Additions	2.1	**2.1**	2.6	2.6
Transfers	-	**-**	(4.2)	(4.2)
Disposals	(0.2)	**(0.2)**	-	-
At end of year	**13.3**	**13.3**	11.4	11.4
Aggregate amortisation				
At beginning of year	4.8	**4.8**	7.3	7.3
Transfers	-	**-**	(4.1)	(4.1)
Charge for the year	1.9	**1.9**	1.6	1.6
Disposals	-	**-**	-	-
At end of year	**6.7**	**6.7**	4.8	4.8
Net book value at end of year	**6.6**	**6.6**	6.6	6.6
Net book value at beginning of year	6.6	**6.6**	5.7	5.7

All amortisation charges in the year have been charged through 'Depreciation and amortisation'. During 2009/10, an exercise was undertaken to review the categorisation, cost and accumulated depreciation of the Intangible assets held by the Group, resulting in a transfer of cost and accumulated depreciation of £4.1m (Society: £4.1m) from Intangible assets to Property, plant and equipment.

18. Investment properties

	Group 2011 £m	Group 2010 £m
Cost or valuation		
At 1 April	**116.0**	114.4
Additions – acquisitions	**0.3**	0.4
Disposals	**(0.7)**	(0.2)
Net (losses)/gains from fair value adjustments	**(1.9)**	1.4
At 31 March	**113.7**	116.0

A national firm of specialist residential valuers, E.Surv Limited has carried out a valuation review of the residential investment properties held by West Bromwich Homes. This has taken the form of a physical 'drive by' inspection of a sample of approximately 10% of the total portfolio, and desktop appraisals of all remaining properties on an individual basis.

E.Surv Limited confirm that based on their valuations of the individual properties, they are satisfied that the overall valuation of the portfolio, as at 31st March 2011 is a fair reflection of Market Value.

The valuation has been prepared in accordance with the RICS Valuation Standards Manual (known as the 'Red Book') in particular UK Practice Statement 1. Market Value is as defined in Practice Statement 3.2.

If the land and building was carried at cost, the carrying amount would have been £88.9m (2009/10: £89.3m).

The Group leases investment properties to non-commercial individuals for a contract period of up to 18 months. The future minimum lease receipts under non-cancellable operating leases that end within 12 months are £2.4m (2009/10: £1.9m). The Group has not recognised any contingent rent in the period (2009/10: £nil).

19. Property, plant and equipment

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

Group	Freehold £m	Land and buildings Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation					
At 1 April 2009	11.1	-	0.9	7.2	19.2
Additions	-	-	-	1.9	1.9
Transfers	(2.2)	1.8	0.1	4.4	4.1
Revaluation	(1.4)	-	-	-	(1.4)
Disposals	(0.1)	-	-	(0.3)	(0.4)
At 31 March 2010	7.4	1.8	1.0	13.2	23.4
Accumulated depreciation					
At 1 April 2009	-	-	0.8	1.9	2.7
Transfers	-	-	-	4.1	4.1
Charge for the year	0.2	-	0.1	2.1	2.4
Revaluation	(0.2)	-	-	-	(0.2)
Elimination on disposals	-	-	-	(0.2)	(0.2)
At 31 March 2010	-	-	0.9	7.9	8.8
Net Book value					
At 31 March 2010	7.4	1.8	0.1	5.3	14.6

During 2009/10, an exercise was undertaken to review the categorisation, cost and accumulated depreciation of the Property, plant and equipment held by the Group, resulting in a transfer of cost and accumulated depreciation of £4.1m (Society: £4.1m) from Intangible assets to Equipment, fixtures, fittings and vehicles.

19. Property, plant and equipment (continued)

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

Society	Freehold £m	Land and buildings Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation					
At 1 April 2009	11.1	-	0.9	6.7	18.7
Additions	-	-	-	1.9	1.9
Transfers	(2.2)	1.8	0.1	4.4	4.1
Revaluation	(1.4)	-	-	-	(1.4)
Disposals	(0.1)	-	-	(0.1)	(0.2)
At 31 March 2010	7.4	1.8	1.0	12.9	23.1
Depreciation					
At 1 April 2009	-	-	0.8	1.7	2.5
Transfers	-	-	-	4.1	4.1
Charge for the year	0.2	-	0.1	2.0	2.3
Revaluation	(0.2)	-	-	-	(0.2)
Elimination on disposals	-	-	-	(0.1)	(0.1)
At 31 March 2010	-	-	0.9	7.7	8.6
Net Book value					
At 31 March 2010	7.4	1.8	0.1	5.2	14.5

During 2009/10, an exercise was undertaken to review the categorisation, cost and accumulated depreciation of the Property, plant and equipment held by the Group, resulting in a transfer of cost and accumulated depreciation of £4.1m (Society: £4.1m) from Intangible assets to Equipment, fixtures, fittings and vehicles. As part of the restructuring of the Group, £0.3m was charged as 'restructuring' in the 2009/10 Income Statement.

The Group's freehold branch properties were revalued at 31 March 2010, 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 International, 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 £4.5m (2009/10: £6.6m).

20. Deferred taxes

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 26% (2009/10: 28%). The movement on the deferred tax account is as follows:

	Group 2011 £m	Group 2010 £m	**Society 2011 £m**	Society 2010 £m
At 1 April	**13.2**	14.5	**3.2**	12.1
Income Statement credit	**3.4**	5.9	**0.5**	1.4
Amount recognised directly in equity	**0.1**	(6.5)	**0.2**	(6.5)
Adjustments in respect of prior years	**0.9**	(0.7)	**5.6**	(3.8)
At 31 March	**17.6**	13.2	**9.5**	3.2

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

	Group 2011 £m	Group 2010 £m	**Society 2011 £m**	Society 2010 £m
Deferred tax assets				
Pensions and other post retirement benefits	**-**	0.5	**-**	0.4
Accelerated tax depreciation	**2.7**	0.4	**2.6**	0.3
Carried forward tax losses	**16.5**	13.9	**5.7**	-
Other temporary differences	**4.6**	5.3	**2.9**	3.9
	23.8	20.1	**11.2**	4.6
Deferred tax liabilities				
Property valuations	**(4.6)**	(5.7)	**(0.5)**	(0.5)
Pensions and other post retirement benefits	**(0.5)**	-	**(0.5)**	-
Other temporary differences	**(1.1)**	(1.2)	**(0.7)**	(0.9)
	(6.2)	(6.9)	**(1.7)**	(1.4)

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

	Group 2011 £m	Group 2010 £m	**Society 2011 £m**	Society 2010 £m
Accelerated tax depreciation	**2.3**	-	**2.4**	-
Other provisions	**0.5**	(1.6)	**(0.7)**	(1.0)
Carried forward tax losses/(gains)	**0.4**	7.0	**4.4**	(1.4)
Property valuations	**1.1**	(0.2)	**-**	-
	4.3	5.2	**6.1**	(2.4)

Deferred income tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable over the foreseeable future.

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 relate to the same fiscal authority.

The deferred tax assets and liabilities closing balances have been calculated at 26% in accordance with IAS 12, being the rate substantively enacted at the date of the Statement of Financial Position. The rate of corporation tax will be further reduced by 1% per annum to 23% by 1 April 2014. As the further reductions were not substantively enacted by 31 March 2011, the impact of the anticipated rate changes is not reflected in the tax provisions reported in these accounts. If the deferred tax assets and liabilities of the Group were all to reverse after 1 April 2014, the effect of the changes from 26% to 23% would be to reduce the net deferred tax asset by £2.1m. To the extent that the deferred tax reverses more quickly than this the impact of the further rate changes on the net deferred tax asset will be reduced.

21. Trade and other receivables

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Prepayments and accrued income	**2.5**	2.9	**2.5**	2.8
Other	**3.3**	3.3	**0.5**	2.3
	5.8	6.2	**3.0**	5.1

22. Shares

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Held by individuals	**5,710.7**	6,542.7	**5,710.7**	6,542.7
Other shares	**1.2**	1.4	**1.2**	1.4
	5,711.9	6,544.1	**5,711.9**	6,544.1

23. Debt securities in issue

	Group 2011 £m	Group 2010 £m
EURO medium term notes	**13.2**	53.6
GBP medium term notes	**3.0**	3.0
Certificates of deposit	**9.0**	7.5
Other debt securities	**722.6**	506.6
Non-recourse finance on securitised advances	**277.5**	340.6
	1,025.3	911.3

	Society 2011 £m	Society 2010 £m
EURO medium term notes	**13.2**	53.6
GBP medium term notes	**3.0**	3.0
Certificates of deposit	**9.0**	7.5
Other debt securities	**722.6**	506.6
	747.8	570.7

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 28).

24. Trade and other payables

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Accruals	**4.4**	9.0	**4.4**	7.7
Other creditors	**10.5**	5.0	**5.7**	2.8
Income tax	**3.7**	2.2	**3.7**	2.2
Amounts due to subsidiary undertakings	-	-	**0.3**	0.3
	18.6	16.2	**14.1**	13.0

25. Provisions for liabilities

	FSCS 2011 £m	Onerous contracts 2011 £m	Total 2011 £m	FSCS 2010 £m	Onerous contracts 2010 £m	Total 2010 £m
Group and Society						
At 1 April	**4.7**	**1.3**	**6.0**	12.2	-	12.2
Utilised in the year	**(2.3)**	**(0.6)**	**(2.9)**	(2.1)	-	(2.1)
Charge/(Release) for the year	**2.2**	**1.5**	**3.7**	(5.4)	1.3	(4.1)
At period end	**4.6**	**2.2**	**6.8**	4.7	1.3	6.0

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 FSCS provision reflects market participation up to the reporting date. The £4.6m provision relates to the estimated management expense levy for the scheme years 2010/11 and 2011/12. This amount was calculated on the basis of the Society's current share of protected deposits taking into account the FSA's estimate of total management expense levies for the scheme years 2009/10 and 2010/11 and assuming that levies for subsequent years are at similar levels. The provision does not include any estimate for management expense levies for future scheme years or for compensation levies which may arise. The three year initial term expires in September 2011 but refinancing is expected to occur.

Onerous contracts

The provision for onerous contracts covers the loss anticipated in connection with future lease expenses from non-cancellable lease commitments in branches that the Society has, as part of its branch restructure, decided are no longer required. The provision should be utilised £0.4 in year 1, £0.9m in years 2 to 5 and £0.9m in greater than 5 years.

26. Subscribed capital

Group and Society	2011 £m	2010 £m
Permanent interest bearing shares	**74.9**	74.9

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

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

27. Profit Participating Deferred Shares

Group and Society	2011 £m	2010 £m
Book value		
Nominal value	**182.5**	182.5
Cumulative fair value adjustments at date of transition	**3.8**	3.8
Capitalised issue costs	**(2.2)**	(2.2)
	184.1	184.1
Cumulative reserve deficit		
Brought forward	**(4.2)**	-
Share of loss for the period	**(2.6)**	(4.2)
	(6.8)	(4.2)
Total value at 31 March	**177.3**	179.9

The Profit participating deferred shares (PPDS) are entitled to receive a distribution, 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). No such distribution may be made if the cumulative reserves are in deficit.

28. 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.

	2011 £m	2010 £m
Financial assets at Fair value through profit or loss:		
Loans fully secured on land		
Carrying value at 31 March	**84.9**	121.7
Net losses in the year (Included in 'Interest expense and similar charges')	**(2.0)**	(3.9)
Financial liabilities at Fair value through profit or loss:		
Non-recourse finance on securitised advances		
Carrying value at 31 March	**99.7**	117.3
Net gains in the year (Included in 'Interest expense and similar charges')	**-**	-
Derivative financial instruments		
Carrying value at 31 March	**(4.9)**	(6.9)
Net gains in the year (Included in 'Interest expense and similar charges')	**2.0**	3.9

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

Group	**Before tax amount 2011 £m**	**Tax (expense)/ benefit 2011 £m**	**Net of tax amount 2011 £m**	Before tax amount 2010 £m	Tax (expense)/ benefit 2010 £m	Net of tax amount 2010 £m
Available for sale financial assets	**(1.6)**	**1.3**	**(0.3)**	22.4	(6.8)	15.6
Cash flow hedges	**(0.3)**	-	**(0.3)**	(0.1)	-	(0.1)
Actuarial gain/(loss) on retirement benefit obligations	**0.7**	**(0.2)**	**0.5**	(6.8)	1.9	(4.9)
Revaluation reserve	**-**	**-**	**-**	(1.2)	0.4	(0.8)
Other comprehensive income	**(1.2)**	**1.1**	**(0.1)**	14.3	(4.5)	9.8

Society	**Before tax amount 2011 £m**	**Tax (expense)/ benefit 2011 £m**	**Net of tax amount 2011 £m**	Before tax amount 2010 £m	Tax (expense)/ benefit 2010 £m	Net of tax amount 2010 £m
Available for sale financial assets	**(1.6)**	**1.3**	**(0.3)**	22.4	(6.8)	15.6
Cash flow hedges	**(0.3)**	-	**(0.3)**	(0.1)	-	(0.1)
Actuarial gain/(loss) on retirement benefit obligations	**0.7**	**(0.2)**	**0.5**	(6.8)	1.9	(4.9)
Revaluation reserve	**-**	**-**	**-**	(1.2)	0.4	(0.8)
Other comprehensive income	**(1.2)**	**1.1**	**(0.1)**	14.3	(4.5)	9.8

30. Retirement benefit obligations

Amounts recognised in the Statement of Financial Position:

Group and Society	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit pension scheme (asset)/obligation	**(1.8)**	2.0	1.6	5.1	4.5

Defined Benefit Plans

For some of the employees of the West Bromwich Building Society, the Society operates a funded pension scheme providing benefits for its employees based on final pensionable emoluments. The assets of the Scheme are held in a separate trustee administered fund. In addition, the Society has some unregistered arrangements in place in respect of former directors. The financial effect of these arrangements is included in this note.

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

The Society closed the Scheme to the future accrual of benefits with effect from 1 August 2009, at which date all previously active members became entitled to deferred pensions in the Scheme.

In July 2010, the government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index. This has been reflected in the Society's assumptions and a gain of £3.0m has been recognised as a result, included in actuarial gains on assumptions in the figures below. For some benefits the Society continues to allow for benefits to increase based on increases in the Retail Prices Index. The expected rate of return as at 31 March 2011 was 6.2% pa (2010/11: 6.2% pa) This year, administrative expenses have been allowed for by way of a 2% loading to the defined benefit obligation (2010/11: a deduction of 0.3% pa was made from the expected return on assets assumption). This rate is derived by taking the weighted average of the long term expected rate of return that is expected on each of the asset classes that the Scheme will invest in, based on the allocation to each asset class as at 31 March 2011.

The estimated amount of Society contributions expected to be paid to the Scheme during 2011/12 is £1.2m (2010/11: £2.7m actual).

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

	2011	2010	2009	2008	2007
Rate of increase in salaries	**-**	-	-	5.50%	4.20%
Pension increases in payment (5% RPI)	**3.40%**	3.60%	3.20%	3.40%	3.00%
Pension increases in payment (2.5% RPI)	**-**	2.40%	2.30%	2.30%	2.20%
Pension increases in payment (2.5% CPI)	**2.20%**	-	-	-	-
Discount rate	**5.40%**	5.60%	7.00%	6.30%	5.30%
Expected return on assets	**6.20%**	6.20%	6.00%	6.50%	6.90%
Life expectancy of male aged 65 at year end date	**22.1**	22.8	22.7	22.6	21.8
Life expectancy of female aged 65 at year end date	**24.4**	24.8	24.6	24.5	24.7
Life expectancy of male aged 65 in 2025	**23.6**	24.7	24.3	-	-
Life expectancy of female aged 65 in 2025	**26.0**	25.8	25.6	-	-

30. Retirement benefit obligations (continued)

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

Group and Society	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
Present value of funded obligations	**72.1**	70.7	49.1	63.0	62.1
Present value of unfunded obligations	**0.7**	0.8	0.6	0.6	0.7
	72.8	71.5	49.7	63.6	62.8
Fair value of Scheme assets	**(74.6)**	(69.5)	(48.1)	(58.5)	(58.3)
Net (asset)/liability in the Statement of Financial Position	**(1.8)**	2.0	1.6	5.1	4.5

The amounts recognised in the Income Statement are as follows:

Group and Society	Projected 2012 £m	**Actual 2011 £m**	Actual 2010 £m	Actual 2009 £m
Current service costs	-	**-**	0.4	2.1
Interest cost	3.9	**3.9**	3.4	4.0
Expected return on plan assets	(4.6)	**(4.3)**	(2.9)	(3.8)
Past service cost	-	**-**	-	0.2
Gains on curtailments and settlements	-	**-**	-	(8.0)
Total cost	(0.7)	**(0.4)**	0.9	(5.5)

Current and past service costs and gains on curtailments and settlements are shown in administrative expenses whilst interest cost and expected return are within 'Other operating income'. The curtailment gain arising in the prior 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 profit of £5.2m (2009/10: £16.0m).

Change in benefit obligations

Group and Society	**2011 £m**	2010 £m	2009 £m
Benefit obligations at beginning of year	**71.5**	49.7	63.6
Current service cost	**-**	0.4	2.1
Interest cost	**3.9**	3.4	4.0
Actuarial losses/(gains)	**0.2**	19.9	(10.0)
Benefits paid	**(2.8)**	(1.9)	(2.2)
Past service costs	**-**	-	0.2
Curtailments and settlements	**-**	-	(8.0)
Benefit obligations at the end of the year	**72.8**	71.5	49.7

Change in scheme assets

Group and Society	**2011 £m**	2010 £m	2009 £m
Fair value of scheme assets at beginning of year	**69.5**	48.1	58.5
Expected return on scheme assets	**4.3**	2.9	3.8
Actuarial gains/(losses)	**0.9**	13.1	(15.7)
Contribution by employer	**2.7**	7.3	3.7
Benefits paid	**(2.8)**	(1.9)	(2.2)
Fair value of scheme assets at end of year	**74.6**	69.5	48.1

The amount recognised outside profit or loss in the Statement of Comprehensive Income (SOCI) for 2010/11 is an actuarial gain of £0.7m (2009/10: loss of £6.8m). The cumulative amount recognised outside profit and loss at 31 March 2011 is an actuarial loss of £18.2m.

30. Retirement benefit obligations (continued)

History of experience gains and losses

Group and Society	**2011**	2010	2009	2008	2007
Experience gains and (losses) on scheme assets:					
amount (£ million)	**0.9**	13.1	(15.7)	(6.3)	(1.2)
percentage of scheme assets	**1%**	19%	(33%)	(11%)	(2%)
Experience losses and (gains) on scheme liabilities:					
amount (£ million)	**2.0**	0.5	-	(0.7)	(4.3)
percentage of scheme liabilities	**3%**	1%	-	(1%)	(7%)

Scheme assets and liabilities

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

	Long-term rate of return expected 2011 %	**Value 2011 £m**	Long-term rate of return expected 2010 %	Value 2010 £m	Long-term rate of return expected 2009 %	Value 2009 £m
Equities	**7.6**	**34.4**	7.8	35.6	8.0	24.7
Corporate bonds	**5.3**	**4.9**	5.4	4.9	5.5	1.9
Gilts	**4.1**	**26.3**	4.3	20.7	4.2	15.6
Tactical asset allocation	**7.0**	**3.2**	7.2	3.0	9.8	1.3
Diversified growth fund	**7.3**	**5.6**	7.5	4.7	-	-
Active currency	**-**	**-**	-	-	9.8	1.1
Cash and other assets	**4.3**	**0.2**	1.0	0.6	4.2	3.5
	6.2	**74.6**	6.2	69.5	6.0	48.1

Provisional asset information at bid value was supplied by the investment managers as at 31 March 2011. The unaudited value of the invested assets at this date is £74.6m (2009/10: £69.5m).

	£m
Black Rock Advisors UK Limited (Equity portfolio)	**34.4**
Black Rock Advisors UK Limited (Bond portfolio)	**31.2**
Black Rock Advisors UK Limited (Tactical Asset Allocation portfolio)	**3.2**
Ruffers Diversified Growth Fund	**5.6**
Total invested assets	**74.4**
Cash and net current assets	**0.2**
Total assets	**74.6**

Stakeholder Scheme

The total cost for the year of the stakeholder plan was £0.8m (2009/10: £0.7m) and at the end of the year there were no outstanding contributions.

For the period through to 31 July 2009 staff could continue to contribute between 2% and 9% with the Society contributing on a sliding scale between 2% and 7%. From 1 August 2009 staff have been able to contribute between 2% and 10% with the Society providing matched funding.

31. Financial Instruments

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

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

Credit Risk

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

The Group Risk 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 Commercial Loans Risk 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 mortgages business and appraises actual arrears and repossession levels against trends and industry averages. The minutes of this committee are presented to the Group Risk Committee.
- The Commercial Loans Risk Committee (CLRC) 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 80. The Group's most significant exposures to credit risk are loans secured on UK residential properties and loans secured on UK land.

Residential assets

Concentration by loan type	**Group 2011 £m**	Group 2010 £m	**Society 2011 £m**	Society 2010 £m
Prime owner occupied	**1,782.5**	2,151.8	**1,403.6**	1,608.3
Buy-to-Let	**2,637.2**	2,720.7	**681.0**	707.8
Other	**145.9**	50.6	**3.4**	-
Gross balances	**4,565.6**	4,923.1	**2,088.0**	2,316.1
Impairment provisions	**(30.3)**	(25.6)	**(17.6)**	(12.4)
Fair value adjustments	**10.3**	20.1	**7.3**	14.1
	4,545.6	4,917.6	**2,077.7**	2,317.8

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

	Group 2011 £m	Group 2010 £m	**Society 2011 £m**	Society 2010 £m
>95%	**1,170.4**	931.4	**293.7**	213.8
90% - 95%	**491.2**	562.2	**151.5**	168.1
85% - 90%	**537.1**	545.0	**190.4**	185.2
75% - 85%	**718.8**	928.1	**327.8**	399.6
50% - 75%	**941.8**	1,123.2	**571.5**	676.1
<50%	**706.3**	833.2	**553.1**	673.3
	4,565.6	4,923.1	**2,088.0**	2,316.1

The Group's average indexed loan to value is 66.7% (2010: 63.7%)

31. Financial Instruments (continued)

The table below provides further information on the Group's residential loans and advances to customers by payment due status as at 31 March 2011.

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Loans neither past due or impaired	**4,353.6**	4,685.2	**1,972.9**	2,210.8
Past due but not impaired				
Past due 1 to 3 months	**74.1**	83.8	**33.6**	41.2
Past due 3 to 6 months	**11.2**	13.2	**7.5**	8.8
Past due 6 to 12 months	**5.1**	6.5	**3.1**	3.5
Past due over 12 months	**1.3**	1.9	**0.6**	1.1
Impaired				
Past due 1 to 3 months	**34.5**	43.6	**34.0**	14.6
Past due 3 to 6 months	**25.3**	27.5	**7.4**	7.5
Past due 6 to 12 months	**18.5**	16.3	**6.7**	6.0
Past due over 12 months	**27.1**	31.5	**15.7**	18.0
Possessions	**14.9**	13.6	**6.5**	4.6
	4,565.6	4,923.1	**2,088.0**	2,316.1

£40.1m (2009/10: £30.1m) 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 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Not impaired	**7,247.9**	8,209.4	**4,090.4**	4,732.2
Impaired	**100.5**	132.4	**57.0**	49.8
Possessions	**14.8**	14.3	**6.5**	4.8
	7,363.2	8,356.1	**4,153.9**	4,786.8

Commercial assets

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Concentration by loan type				
Loans secured on commercial property	**1,213.3**	1,364.0	**23.2**	24.5
Loans to housing associations	**0.1**	0.1	**-**	-
Loans secured on residential property	**109.4**	124.4	**7.3**	6.0
Gross balances	**1,322.8**	1,488.5	**30.5**	30.5
Impairment provisions	**(60.9)**	(58.4)	**-**	-
Fair value adjustments	**72.4**	89.1	**3.2**	3.4
	1,334.3	1,519.2	**33.7**	33.9

31. Financial Instruments (continued)

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

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Healthcare & Leisure	**249.5**	251.8	**-**	-
Industrial & Warehouse	**73.2**	94.8	**1.1**	1.2
Office	**221.6**	248.7	**10.9**	11.3
Retail	**659.2**	750.1	**11.2**	12.0
Other	**9.8**	18.6	**-**	-
	1,213.3	1,364.0	**23.2**	24.5

The Group's average unindexed loan to value at the year end date is 108.0% (2009/10: 97.3%). £14.2m (2009/10: £19.1m) of loans that would be past due or impaired have had their terms renegotiated.

Included within commercial loans are £288.0m (2009/10: £367.9m) of commercial mortgage balances that the Group has sold to bankruptcy remote Special Purpose Entities (SPEs). Since the Group maintains substantially all of the risks and rewards emanating from the commercial mortgages subject to first loss limitations, they are included in the Group's Statement of Financial Position in accordance with IAS 39.

The table below provides further information on the Group's Commercial assets by payment due status as at 31 March 2011.

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Loans neither past due or impaired	**966.6**	1,170.9	**30.5**	30.5
Not past due but impaired	**89.4**	71.4	**-**	-
Past due but not impaired				
Past due up to 3 months	**54.4**	64.6	**-**	-
Past due 3 to 6 months	**-**	0.1	**-**	-
Past due 6 to 12 months	**2.6**	2.9	**-**	-
Past due over 12 months	**-**	3.3	**-**	-
Impaired				
Past due up to 3 months	**71.9**	77.1	**-**	-
Past due 3 to 6 months	**1.2**	43.7	**-**	-
Past due 6 to 12 months	**44.1**	2.0	**-**	-
Past due over 12 months	**92.5**	47.5	**-**	-
Possessions	**0.1**	5.0	**-**	-
	1,322.8	1,488.5	**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.

Value of collateral held

Group	Indexed 2011 £m	Unindexed 2011 £m	Indexed 2010 £m	Unindexed 2010 £m
Not impaired	**1,339.9**	**1,321.9**	1,542.5	1,685.4
Impaired	**214.2**	**219.0**	116.0	120.3
Possessions	**2.2**	**2.2**	4.6	4.4
	1,556.3	**1,543.1**	1,663.1	1,810.1

31. Financial Instruments (continued)

Value of collateral held

Society	Indexed 2011 £m	Unindexed 2011 £m	Indexed 2010 £m	Unindexed 2010 £m
Not impaired	**50.6**	**51.1**	53.2	67.3
Impaired	**-**	**-**	-	-
Possessions	**-**	**-**	-	-
	50.6	**51.1**	53.2	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 2011 none of the Group's treasury portfolio exposure was either past due or impaired.

As at 31 March 2011, 95.9% (2009/10: 92.2%) of the Group's treasury investment assets were rated single A or better. The Group has no exposure in its liquidity portfolio to the emerging markets, Greece, Ireland, Italy, Portugal or Spain, or to any mortgage market other than the UK, and no impairment charges were required against any treasury investment assets in the year. The tables below show the relative concentrations of the Group's treasury investment portfolio:

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
Concentration by credit grading				
AAA	**1,052.5**	960.3	**1,052.5**	960.3
AA+ to AA-	**307.7**	510.2	**230.9**	425.7
A+ to A-	**10.3**	44.3	**10.3**	44.3
Building Societies	**58.2**	119.1	**58.2**	119.1
Other	**-**	8.2	**1,167.7**	1,189.5
	1,428.7	1,642.1	**2,519.6**	2,738.9
Concentration by sector				
Financial institutions	**372.9**	673.5	**299.4**	589.0
Local authorities	**-**	8.2	**-**	8.2
Asset backed securities	**180.6**	227.9	**1,344.9**	1,409.2
Sovereign	**875.2**	732.5	**875.3**	732.5
	1,428.7	1,642.1	**2,519.6**	2,738.9
Concentration by region				
UK	**1,300.2**	1,510.8	**2,391.1**	2,607.6
Europe (excluding UK)	**72.6**	55.9	**72.6**	55.9
North America	**-**	10.0	**-**	10.0
Australasia	**55.9**	65.4	**55.9**	65.4
	1,428.7	1,642.1	**2,519.6**	2,738.9

31. Financial Instruments (continued)

Market risk

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

The Group's exposure to market risk is governed by a policy approved by the Board. This policy sets out the nature of risk which may be taken and aggregate risk limits. At each meeting the Assets 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 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 mortgages, 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 metrics 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 parallel shift in the yield curve for the range +2% to -2% for Market Value and -0.5% to +2% for Net Interest Income combined with scenarios for extreme Base Rate and LIBOR paths. The results are reviewed monthly by ALCo.
The scale of interest risk is controlled by the establishment of an operational range and an absolute limit structure 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 pre-tax interest rate risk exposures, to a +2% parallel shift, through the reporting period were as follows:

	As at 31 March 2011 £m	Average 2011 £m	High 2011 £m	Low 2011 £m
Market Value	**12.8**	5.5	12.8	(0.9)
Net interest income	**4.6**	1.1	4.6	(2.0)

31. Financial Instruments (continued)

Liquidity Risk

The Board recognises that a structural maturity mismatch exists within the Group's Statement of Financial Position. This is an unavoidable consequence of the Group's business: providing its members with long term mortgage advances funded, primarily, by retail share accounts, which tend to be contractually short-term. 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.

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 Statement of Financial Position. 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. Two key measures used by Treasury to manage the Group's overall exposure to liquidity risk are Prudential Liquidity, which was 23.43% at 31 March 2011 (2009/10: 25.50%) and Immediate Cash, which was 27.67% at 31 March 2011 (2009/10: 15.06%). See pages 14 to 17 of the Business Review for further details.

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

As at 31 March 2011

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

31. Financial Instruments (continued)

As at 31 March 2011

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

31. Financial Instruments (continued)

As at 31 March 2010

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	-	-	-	-	-	9.6	9.6
Loans and advances to credit institutions	94.5	98.4	-	-	-	-	192.9
Investment securities: Available for sale	-	572.2	236.9	504.0	136.1	-	1,449.2
Derivative financial instruments	-	2.3	10.0	40.5	25.6	-	78.4
Loans and advances to customers	-	49.6	291.2	1,291.2	4,805.0	-	6,437.0
Current tax assets	-	-	-	-	-	2.2	2.2
Deferred tax assets	-	-	-	-	-	20.1	20.1
Trade and other receivables	-	-	-	-	-	6.2	6.2
Intangible assets	-	-	-	-	-	7.2	7.2
Investment properties	-	-	-	-	-	116.0	116.0
Property, plant and equipment	-	-	-	-	-	14.6	14.6
Held for sale	-	-	-	-	-	2.2	2.2
	94.5	722.5	538.1	1,835.7	4,966.7	178.1	8,335.6
Liabilities:							
Shares	2,970.1	985.4	1,052.4	1,535.2	1.0	-	6,544.1
Amounts due to credit institutions	-	92.6	-	-	-	-	92.6
Amounts due to other customers	-	133.2	11.1	-	-	-	144.3
Derivative financial instruments	-	0.1	2.6	21.0	73.0	-	96.7
Debt securities in issue	-	7.5	-	517.4	386.4	-	911.3
Deferred tax liabilities	-	-	-	-	-	6.9	6.9
Trade and other payables	-	-	-	-	-	16.2	16.2
Provisions for liabilities	-	-	-	-	-	6.0	6.0
Held for sale	-	-	-	-	-	0.5	0.5
Profit participating deferred shares	-	-	-	-	-	179.9	179.9
Retirement benefit obligations	-	-	-	-	-	2.0	2.0
Subscribed capital	-	-	-	-	-	74.9	74.9
General reserves	-	-	-	-	-	258.5	258.5
Revaluation reserve	-	-	-	-	-	3.8	3.8
Available for sale reserve	-	-	-	-	-	(2.3)	(2.3)
Cash flow hedging reserve	-	-	-	-	-	0.2	0.2
	2,970.1	1,218.8	1,066.1	2,073.6	460.4	546.6	8,335.6

31. Financial Instruments (continued)

As at 31 March 2010

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	-	-	-	-	-	9.6	9.6
Loans and advances to credit institutions	-	108.4	-	-	-	-	108.4
Investment securities: Available for sale	-	572.2	236.9	504.0	1,317.4	-	2,630.5
Derivative financial instruments	-	2.3	11.3	44.6	37.8	-	96.0
Loans and advances to customers	-	5.8	11.2	167.1	2,167.6	-	2,351.7
Current tax assets	-	-	-	-	-	1.0	1.0
Deferred tax assets	-	-	-	-	-	4.6	4.6
Trade and other receivables	-	-	-	-	-	5.1	5.1
Intangible assets	-	-	-	-	-	6.6	6.6
Investments	-	-	-	-	-	2,734.1	2,734.1
Property, plant and equipment	-	-	-	-	-	14.5	14.5
	-	688.7	259.4	715.7	3,522.8	2,775.5	7,962.1
Liabilities:							
Shares	2,970.1	985.4	1,052.4	1,535.2	1.0	-	6,544.1
Amounts due to credit institutions	-	92.6	-	-	-	-	92.6
Amounts due to other customers	-	133.2	11.1	-	-	-	144.3
Derivative financial instruments	-	-	2.1	15.4	61.1	-	78.6
Debt securities in issue	-	7.5	-	523.0	40.2	-	570.7
Deferred tax liabilities	-	-	-	-	-	1.4	1.4
Trade and other payables	-	-	-	-	-	13.0	13.0
Provisions for liabilities	-	-	-	-	-	6.0	6.0
Profit participating deferred shares	-	-	-	-	-	179.9	179.9
Retirement benefit obligations	-	-	-	-	-	2.0	2.0
Subscribed capital	-	-	-	-	-	74.9	74.9
General reserves	-	-	-	-	-	252.9	252.9
Revaluation reserve	-	-	-	-	-	3.8	3.8
Available for sale reserve	-	-	-	-	-	(2.3)	(2.3)
Cash flow hedging reserve	-	-	-	-	-	0.2	0.2
	2,970.1	1,218.7	1,065.6	2,073.6	102.3	531.8	7,962.1

31. Financial Instruments (continued)

The significant development of liquidity stress testing and forecast models carried out in 2010 has continued in 2011 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	2011 £m	2011 %	2010 £m	2010 %
Cash in hand and balances with the Bank of England	**385.4**	**27.0**	9.6	0.6
Cash with banks and building societies	**124.7**	**8.7**	192.9	11.7
Gilts	**142.5**	**9.9**	134.6	8.1
Certificates of deposit	**65.1**	**4.6**	230.4	14.0
Local authority investments	**-**	**-**	8.2	0.5
Fixed rate bonds	**381.6**	**26.7**	672.9	40.7
Floating rate notes	**149.6**	**10.5**	174.9	10.6
Residential mortgage backed securities	**179.8**	**12.6**	228.2	13.8
Total	**1,428.7**	**100.0**	1,651.7	100.0

During the year the liquidity balances have decreased from £1,651.7m at 31 March 2010 to £1,428.7m at 31 March 2011, expressed as a proportion of our combined shares and deposits liabilities this represents a decrease from 22.47% to 21.47%.

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

At 31 March 2011

Group	0 - 3 months £m	3 - 12 months £m	1 - 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,978.0	717.7	1,100.5	37.7	**5,833.9**
Amounts owed to credit institutions, customers and debt securities	363.9	4.1	539.1	257.4	**1,164.5**
Derivative financial instruments	8.9	25.9	117.7	148.0	**300.5**
Total liabilities	**4,350.8**	**747.7**	**1,757.3**	**443.1**	**7,298.9**

At 31 March 2010

Group	0 - 3 months £m	3 - 12 months £m	1 - 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,951.1	1,052.0	1,540.1	1.0	6,544.2
Amounts owed to credit institutions, customers and debt securities	178.2	11.1	522.9	40.2	752.4
Derivative financial instruments	0.1	2.6	21.0	73.0	96.7
Total liabilities	4,129.4	1,065.7	2,084.0	114.2	7,393.3

For each material class of financial liability a maturity analysis is provided in pages 72 to 75.

31. Financial Instruments (continued)

At 31 March 2011

Society	0 - 3 months £m	3 - 12 months £m	1 - 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,978.0	717.7	1,100.5	37.7	**5,833.9**
Amounts owed to credit institutions, customers and debt securities	363.9	4.1	539.1	257.4	**1,164.5**
Derivative financial instruments	6.1	17.4	74.1	65.5	**163.1**
Total liabilities	**4,348.0**	**739.2**	**1,713.7**	**360.6**	**7,161.5**

At 31 March 2010

Society	0 - 3 months £m	3 - 12 months £m	1 - 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,951.1	1,052.0	1,540.1	1.0	6,544.2
Amounts owed to credit institutions, customers and debt securities	178.2	11.1	522.9	40.2	752.4
Derivative financial instruments	3.9	10.7	26.4	37.6	78.6
Total liabilities	4,133.2	1,073.8	2,089.4	78.8	7,375.2

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 2011 was £13.2m (2009/10: £53.6m) 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 2011 was £356.1m (2009/10: £335.6m) 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 derivatives are not used in trading activity or for speculative purposes. The nature of these instruments means that the nominal value of these transactions is not included in the Statement of Financial Position. The interest payments, receipts and changes in fair value of effective hedges are recognised in the interest margin. Fair values are recorded in the Statement of Financial Position.

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

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

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

31. Financial Instruments (continued)

Classification of financial assets and financial liabilities

The following tables summarise the classification of carrying amounts of the Group's primary financial assets and liabilities as at 31 March 2011 and 31 March 2010:

As at 31 March 2011

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

As at 31 March 2010

Group	Amortised Cost £m	Available for sale £m	Fair value through income statement £m	Total £m
Assets:				
Cash and balances with the Bank of England	9.6	-	-	9.6
Loans and advances to credit institutions	192.9	-	-	192.9
Investment securities: Available for sale	-	1,449.2	-	1,449.2
Derivative financial instruments	-	-	78.4	78.4
Loans and advances to customers	6,315.3	-	121.7	6,437.0
Total financial assets	6,517.8	1,449.2	200.1	8,167.1
Other non-financial assets				168.5
Total assets				8,335.6
Liabilities:				
Shares	6,544.1	-	-	6,544.1
Amounts due to credit institutions	92.6	-	-	92.6
Amounts due to other customers	144.3	-	-	144.3
Derivative financial instruments	-	-	96.7	96.7
Debt securities in issue	237.7	-	673.6	911.3
Total financial liabilities	7,018.7	-	770.3	7,789.0
Other non-financial liabilities				31.6
Total liabilities				7,820.6

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

31. Financial Instruments (continued)

Classification of financial assets and financial liabilities (continued)

The following tables summarise the classification of carrying amounts of the Society's primary financial assets and liabilities as at 31 March 2011 and 31 March 2010:

As at 31 March 2011

Society	Amortised Cost £m	Available for sale £m	Fair value through income statement £m	Total £m
Assets:				
Cash and balances with the Bank of England	385.4	-	-	**385.4**
Loans and advances to credit institutions	50.2	-	-	**50.2**
Investment securities: Available for sale	-	2,084.0	-	**2,084.0**
Derivative financial instruments	-	-	86.8	**86.8**
Loans and advances to customers	2,111.4	-	-	**2,111.4**
Investments	2,498.3	-	-	**2,498.3**
Total financial assets	**5,045.3**	**2,084.0**	**86.8**	**7,216.1**
Other non-financial assets				**37.3**
Total assets				**7,253.4**
Liabilities:				
Shares	5,711.9	-	-	**5,711.9**
Amounts due to credit institutions	64.3	-	-	**64.3**
Amounts due to other customers	131.6	-	-	**131.6**
Derivative financial instruments	-	-	66.5	**66.5**
Debt securities in issue	220.8	-	527.0	**747.8**
Total financial liabilities	**6,128.6**	**-**	**593.5**	**6,722.1**
Other non-financial liabilities				**22.6**
Total liabilities				**6,744.7**

As at 31 March 2010

Society	Amortised Cost £m	Available for sale £m	Fair value through income statement £m	Total £m
Assets:				
Cash and balances with the Bank of England	9.6	-	-	9.6
Loans and advances to credit institutions	108.4	-	-	108.4
Investment securities: Available for sale	-	2,630.5	-	2,630.5
Derivative financial instruments	-	-	96.0	96.0
Loans and advances to customers	2,351.7	-	-	2,351.7
Investments	2,734.1	-	-	2,734.1
Total financial assets	5,203.8	2,630.5	96.0	7,930.3
Other non-financial assets				31.8
Total assets				7,962.1
Liabilities:				
Shares	6,544.1	-	-	6,544.1
Amounts due to credit institutions	92.6	-	-	92.6
Amounts due to other customers	144.3	-	-	144.3
Derivative financial instruments	-	-	78.6	78.6
Debt securities in issue	14.4	-	556.3	570.7
Total financial liabilities	6,795.4	-	634.9	7,430.3
Other non-financial liabilities				22.4
Total liabilities				7,452.7

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

31. Financial Instruments (continued)

Fair Values of Financial Assets and Financial Liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group Statement of Financial Position:

	Group Carrying Value 2011 £m	**Group Fair value 2011 £m**	**Society Carrying Value 2011 £m**	**Society Fair value 2011 £m**
Financial Assets				
Cash and balances with Bank of England	**385.4**	385.4	**385.4**	385.4
Investment securities: Available for sale	**918.6**	918.6	**2,084.0**	2,084.0
Loans and advances to credit institutions	**124.7**	124.7	**50.2**	50.2
Loans and advances to customers	**5,880.1**	6,035.4	**2,111.4**	2,203.2
Financial Liabilities				
Shares	**5,711.9**	5,711.9	**5,711.9**	5,711.9
Amounts due to credit institutions	**64.3**	64.3	**64.3**	64.3
Amounts due to other customers	**131.6**	131.6	**131.6**	131.6
Debt securities in issue	**1,025.3**	1,028.0	**747.8**	750.5

	Group Carrying Value 2010 £m	Group Fair value 2010 £m	Society Carrying Value 2010 £m	Society Fair value 2010 £m
Financial Assets				
Cash and balances with Bank of England	9.6	9.6	9.6	9.6
Investment securities: Available for sale	1,449.2	1,449.2	2,630.5	2,630.5
Loans and advances to credit institutions	192.9	192.9	108.4	108.4
Loans and advances to customers	6,437.0	6,543.4	2,351.7	2,482.6
Financial Liabilities				
Shares	6,544.1	6,544.1	6,544.1	6,544.1
Amounts due to credit institutions	92.6	92.6	92.6	92.6
Amounts due to other customers	144.3	144.3	144.3	144.3
Debt securities in issue	911.3	912.5	570.7	571.9

a) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

b) Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

c) Debt securities in issue

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

The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2011.

31. Financial Instruments (continued)

Fair value measurement

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

2011 – Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial Assets				
Investment securities: Available for sale	853.5	65.1	-	**918.6**
Loans and advances to customers	-	84.9	-	**84.9**
Derivative financial instruments	-	73.4	-	**73.4**
	853.5	**223.4**	**-**	**1,076.9**
Financial Liabilities				
Debt securities in issue	-	626.7	-	**626.7**
Derivative financial instruments	-	79.8	-	**79.8**
	-	**706.5**	**-**	**706.5**

2011 – Society	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial Assets				
Investment securities: Available for sale	2,018.9	65.1	-	**2,084.0**
Derivative financial instruments	-	86.8	-	**86.8**
	2,018.9	**151.9**	**-**	**2,170.8**
Financial Liabilities				
Debt securities in issue	-	527.0	-	**527.0**
Derivative financial instruments	-	66.5	-	**66.5**
	-	**593.5**	**-**	**593.5**

2010 – Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial Assets				
Investment securities: Available for sale	1,449.2	-	-	1,449.2
Loans and advances to customers	-	121.7	-	121.7
Derivative financial instruments	-	78.4	-	78.4
	1,449.2	200.1	-	1,649.3
Financial Liabilities				
Debt securities in issue	-	673.6	-	673.6
Derivative financial instruments	-	96.7	-	96.7
	-	770.3	-	770.3

2010 – Society	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial Assets				
Investment securities: Available for sale	2,630.5	-	-	2,630.5
Derivative financial instruments	-	96.0	-	96.0
	2,630.5	96.0	-	2,726.5
Financial Liabilities				
Debt securities in issue	-	556.3	-	556.3
Derivative financial instruments	-	78.6	-	78.6
	-	634.9	-	634.9

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

These definitions have been taken from the March 2009 amendment to IFRS 7 'Improving Disclosures about Financial Instruments'.

32. Financial commitments

	Group 2011 £m	Group 2010 £m	Society 2011 £m	Society 2010 £m
a) Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	**0.5**	0.2	**0.5**	0.2
b) Leasing commitments				
The total commitments under non-cancellable leases are as follows:				
Rental commitments arise:				
Within one year	**0.7**	0.8	**0.6**	0.6
Later than one year and not later than five years	**1.8**	1.7	**1.8**	1.5
After five years	**1.3**	1.1	**1.3**	1.1
	3.8	3.6	**3.7**	3.2
c) Loan commitments				
Undrawn loan facilities	**-**	-	**-**	-

33. Related party transactions

i) Subsidiary, Parent and Ultimate Controlling Party

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

ii) Key Management Personnel

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 2011	**Amount in respect of key management personnel and their close family members 2011 £'000**	No of key management personnel 2010	Amount in respect of key management personnel and their close family members 2010 £'000
Mortgage balances	**1**	**101**	2	251
Interest	**2**	**2**	4	10

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 2011 figures above is a £nil (2010 - £150k) 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.

During the year the Society paid £45,849 to Marketing Matters, a company with whom Robert Sharpe holds a non-equity interest relating to his previous role. On 1 November 2010, the Society sold a freehold property at open market value to NFU Mutual where Martin Ritchley serves as a non-executive Director.

iv) Contributions to pension Schemes

During the year the Group and Society paid contributions of £2.7m (2009/10 £7.3.m) and £2.7m (2009/10 £7.3m) respectively to defined benefit pension schemes, which are classified as related parties.

v) Transactions with Group companies

	Interest paid to WBBS 2011 £m	**Admin fee paid to Society 2011 £m**	Interest paid to WBBS 2010 £m	Admin fee paid to Society 2010 £m
West Bromwich Mortgage Company Limited	**38.2**	**-**	48.7	-
West Bromwich Commercial Limited	**58.7**	**-**	62.8	-
WBBS Computer Finance Limited	**-**	**-**	-	(0.4)
West Bromwich Homes Limited	**3.4**	**-**	4.7	0.1
Insignia Finance Limited	**1.2**	**-**	1.4	-
	101.5	**-**	117.6	(0.3)

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

	Loans owed by Subsidiaries 2011 £m	**Loans owed to Subsidiaries 2011 £m**	Loans owed by Subsidiaries 2010 £m	Loans owed to Subsidiaries 2010 £m
West Bromwich Mortgage Company Limited	**1,498.7**	**-**	1,589.8	-
West Bromwich Commercial Limited	**867.2**	**-**	999.7	-
Mortgage Force Limited	**-**	**-**	2.5	-
WBBS Computer Finance Limited	**(0.1)**	**-**	-	-
CL Mortgages Limited	**-**	**-**	-	-
Governangle Limited – dormant	**-**	**0.2**	-	0.2
Governafter Limited – dormant	**-**	**0.1**	-	0.1
Insync Financial Planning Limited	**0.1**	**-**	0.2	-
West Bromwich Homes Limited	**91.3**	**-**	92.6	-
Insignia Finance Limited	**40.5**	**-**	48.7	-
	2,497.7	**0.3**	2,733.5	0.3

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

34. Business Segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Group Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has three main business segments:

- Retail – incorporating residential lending, savings, investment and protection;
- Commercial – primarily representing loans for commercial property investment;
- Property – a portfolio of residential properties for rent; and
- Mortgage Broking (discontinued).

Central group operations have been included in Retail and comprise risk management, funding, treasury services, human resources and providing computer services, none of which constitute a separately reportable segment and business activity from head office.

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

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Board is measured in a manner consistent with that in the consolidated Income Statement.

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

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

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

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

Income Statements – March 2011

	Retail £m	Commercial £m	Property £m	Consol adj £m	Continuing operations £m	Discontinued operations £m	Total Group £m
Interest receivable and similar income	218.6	57.7	-	(62.2)	214.1	-	**214.1**
Interest payable and similar charges	(174.8)	(63.5)	(3.4)	62.0	(179.7)	-	**(179.7)**
Net interest receivable	**43.8**	**(5.8)**	**(3.4)**	**(0.2)**	**34.4**	**-**	**34.4**
Fees & commissions receivable	5.0	0.7	-	-	5.7	0.5	**6.2**
Fees and commissions payable	-	-	-	-	-	(0.4)	**(0.4)**
Fair value (losses)/gains on financial instruments	(9.5)	0.4	-	-	(9.1)	-	**(9.1)**
Net realised profits	15.6	-	-	-	15.6	-	**15.6**
Other operating income/(expense)	1.2	0.7	3.7	(1.5)	4.1	0.8	**4.9**
Total operating income/(expense)	**56.1**	**(4.0)**	**0.3**	**(1.7)**	**50.7**	**0.9**	**51.6**
Administrative expenses – ongoing	(34.5)	(3.0)	(0.1)	1.5	(36.1)	(0.2)	**(36.3)**
Administrative expenses – restructuring	(0.3)	-	-	-	(0.3)	-	**(0.3)**
Depreciation and amortisation	(5.0)	-	-	-	(5.0)	-	**(5.0)**
Impairment of investments	-	-	-	-	-	(1.4)	**(1.4)**
Operating profit/(loss) before provisions	**16.3**	**(7.0)**	**0.2**	**(0.2)**	**9.3**	**(0.7)**	**8.6**
Losses on investment properties	-	-	(1.9)	-	(1.9)	-	**(1.9)**
Impairment losses on loans and advances	(8.1)	(8.7)	-	-	(16.8)	-	**(16.8)**
Provisions for contingent liabilities and commitments	(3.7)	-	-	-	(3.7)	-	**(3.7)**
Profit/(Loss) on ordinary activities before tax	**4.5**	**(15.7)**	**(1.7)**	**(0.2)**	**(13.1)**	**(0.7)**	**(13.8)**
Tax on profit/(loss) on ordinary activities	2.3	0.2	1.1	(0.2)	3.4	-	**3.4**
Profit/(Loss) for the year	**6.8**	**(15.5)**	**(0.6)**	**(0.4)**	**(9.7)**	**(0.7)**	**(10.4)**

34. Business Segments (continued)

Statements of financial position – March 2011

	Retail £m	Commercial £m	Property £m	Consol adj £m	Continuing operations £m	Discontinued operations £m	Total Group £m
Total Assets	**8,264.5**	**1,295.5**	**117.1**	**(2,128.1)**	**7,549.0**	**-**	**7,549.0**
Total Liabilities	**7,741.4**	**1,344.2**	**94.2**	**(2,135.3)**	**7,044.5**	**-**	**7,044.5**
Capital expenditure	**4.4**	**-**	**0.3**	**-**	**4.7**	**-**	**4.7**

Income statements – March 2010

	Retail £m	Commercial £m	Property £m	Consol adj £m	Continuing operations £m	Discontinued operations £m	Total Group £m
Interest receivable and similar income	249.7	63.5	-	(66.7)	246.5	-	246.5
Interest payable and similar charges	(214.1)	(69.3)	(4.7)	67.5	(220.6)	-	(220.6)
Net interest receivable	35.6	(5.8)	(4.7)	0.8	25.9	-	25.9
Fees & commissions receivable	7.3	0.3	-	(0.9)	6.7	2.4	9.1
Fees and commissions payable	-	-	-	-	-	(1.9)	(1.9)
Fair value gains/(losses) on financial instruments	2.7	(0.1)	-	-	2.6	-	2.6
Net realised profits	3.8	-	-	-	3.8	-	3.8
Other operating (expense)/income	(0.2)	0.9	5.1	(0.6)	5.2	-	5.2
Total operating income/(expense)	49.2	(4.7)	0.4	(0.7)	44.2	0.5	44.7
Administrative expenses – ongoing	(37.6)	(2.9)	(0.2)	1.8	(38.9)	(0.9)	(39.8)
Administrative expenses – restructuring	(3.3)	-	-	-	(3.3)	-	(3.3)
Depreciation and amortisation	(4.0)	-	-	-	(4.0)	(0.5)	(4.5)
Impairment of investments	-	-	-	-	-	(4.9)	(4.9)
Operating profit/(loss) before provisions	4.3	(7.6)	0.2	1.1	(2.0)	(5.8)	(7.8)
Impairment losses on loans and advances	(4.9)	(15.7)	-	-	(20.6)	-	(20.6)
Provisions for contingent liabilities and commitments	4.1	-	-	-	4.1	-	4.1
Profit/(Loss) on ordinary activities before tax	3.5	(23.3)	0.2	1.1	(18.5)	(5.8)	(24.3)
Tax on profit/(loss) on ordinary activities	-	6.3	0.5	0.5	7.3	-	7.3
Profit/(Loss) for the year	3.5	(17.0)	0.7	1.6	(11.2)	(5.8)	(17.0)

Statements of Financial Position – March 2010

	Retail £m	Commercial £m	Property £m	Consol adj £m	Continuing operations £m	Discontinued operations £m	Total Group £m
Total Assets	7,965.8	1,541.9	118.9	(1,287.2)	8,339.4	(3.8)	8,335.6
Total Liabilities	7,443.6	1,559.3	97.2	(1,282.5)	7,817.6	3.0	7,820.6
Capital expenditure	4.5	-	0.4	-	4.9	-	4.9

Annual Business Statement for the year ended 31 March 2011

1. Statutory percentages

	2011 %	Statutory Limit %
Lending limit	**19.1**	25.0
Funding limit	**14.2**	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group plus Allowance for losses on loans and advances less Liquid assets, Non-recourse finance, Investment properties, Intangible assets and Property, plant and equipment as shown in the Group Accounts.

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

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2011 %	2010 %
As a percentage of shares and borrowings:		
Gross Capital	**7.58**	7.01
Free Capital	**5.86**	5.38
Liquid assets	**21.47**	22.47
Loss for the financial year as a percentage of mean total assets	**(0.13)**	(0.19)
Management expenses as a percentage of mean total assets	**0.52**	0.53

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 profit participating deferred shares.
- "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" represent the aggregate of administrative expenses, depreciation and amortisation.

Information relating to Directors' and Officers' other directorships and interests at 31 March 2011

Name, Qualification and Date of Birth	Role	Date of Appointment	Other Directorships and interests
David Huw Davies BA, MBA, FCA 27 February 1956	Non-Executive Director	27 September 2006	Wates Group Ltd including subsidiaries and associated companies WBH (Financial Services) Limited WSP plc I CAN Charity
Lesley James CBE BA (Hons), MA, CCIPD, FRSA 7 April 1949	Non-Executive Director	1 January 2001	Anchor Housing Trust St Modwen Properties PLC
Mark Nicholls MA (Cantab), MBA 5 May 1949	Chairman	1 January 2010	Burcot House Management Limited Northern Investors Company PLC EcoSecurities Group plc Rathbone Brothers Plc
Martin Ritchley FCA, FCIB, Hon DBA (Coventry) 1 July 1946	Non-Executive Director	1 September 2009	NFU Mutual Insurance Pension Fund Trust Company Limited The ARC Addington Fund The National Farmers Union Mutual Insurance Society Limited
Richard Sommers MA (Oxon), ACIB 4 September 1956	Non-Executive Director	1 October 2009	Treasurer and Fellow of Lady Margaret Hall
Mark Gibbard BSc, FCA, MCT 31 August 1961	Group Finance Director	16 February 2011	
Andrew Jones BSc (Hons), FCIB, FCIS 21 April 1957	Group Risk Director	24 November 2010	Insignia Finance Limited White Label Lending Limited
Robert Sharpe 14 February 1949	Chief Executive	13 October 2008	Barclays Pension Fund Trustees Limited Robert Sharpe Consultancy Limited Vaultex (UK) Limited
Jonathan Westhoff BA (Hons) Financial Services, FCMA, ACIB 11 July 1964	Deputy Chief Executive	5 May 2009	Millinet Limited West Bromwich Commercial Limited West Bromwich Homes Limited WBBS Computer Finance Limited

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

Service Contracts

For details of the Executive Directors' service contracts, see Directors' Remuneration Report on pages 26 to 28.

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

Officers

Divisional Directors	Role	Society and Subsidiary directorships
Paul Field CMS	Divisional Director, Operations	West Bromwich Homes Limited West Bromwich Mortgage Company Limited CL Mortgages Limited
Stuart J Hislop	Treasurer	Millinet Limited Central Processing Limited
Richard J Hopwood	Divisional Director, Distribution	West Bromwich Financial Planning Limited
Ian J Kilmartin BA (Hons), MSc	Divisional Director, Business Transformation and Change	-
Stephen N Leonard MBA, DipM	Divisional Director, Marketing and E-Commerce	Lighthouse Learning (Chairman of Charity)
Thomas M Lynch MA, ACA	Divisional Director, Finance	CL Mortgages Limited West Bromwich Mortgage Company Limited WBBS (SRS) Limited WBBS Computer Finance Limited West Bromwich Financial Planning Limited
Peter Southcott	Divisional Director, Credit Management	Insignia Finance Limited West Bromwich Commercial Limited White Label Lending Limited
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	-
Peter Jones MBA	Head of Assets & Liabilities	-
John McErlean MIIA, FIIA	Head of Internal Audit	-
Christopher J Miller AIS&MM	Head of Commercial Lending	West Bromwich Commercial Limited
Neil Noakes	Head of Risk & Compliance	-
Jacqui Randle BSc, Chartered FCIPD	Head of Human Resources	WBBS (SRS) Limited

Glossary

Set out below are the definitions of the terms used within the Annual Report and Accounts to assist the reader and to facilitate comparison with other financial institutions:

Arrears – Customers are said to be in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan commitment is unpaid or overdue. The value of the arrears is the value of the payments that have been missed.

Asset backed securities – Securities that represent an interest in an underlying pool of referenced assets. Typically these assets are pools of residential or commercial mortgages.

Basel II – Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. Basel II defines the methods by which firms should calculate their regulatory capital requirements to hold sufficient levels of capital to protect the financial system against unexpected losses.

Commercial lending – Loans secured on commercial assets. Commercial assets can include office buildings, industrial property, hotels, medical centres, shopping centres, farm land, buy-to-let and housing association properties.

Contractual maturity – The final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal and interest is due to be paid.

Core Tier 1 capital – Defined by the FSA as general reserves plus profit participating deferred shares less intangible assets and other deductions, including excess impairment provisions and securitisation positions.

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

Credit risk – This is the risk that a customer or counterparty is unable to honour their obligations as they fall due.

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

Debt securities in issue – Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit and non-recourse finance.

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

Derivative financial instruments – A derivative financial instrument is a type of financial instrument (or an agreement between two parties) whose value depends on the underlying asset, index or reference rate it is linked to. The Group uses derivative financial instruments to hedge its exposures to market risks such as interest rate, equity and currency risk.

Effective Interest Rate method (EIR) – The method used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period. The calculation includes all fees and penalties paid or received between parties to the contract that are considered integral.

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

Financial Services Compensation Scheme (FSCS) – The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the FSA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.

Free capital – The aggregate of gross capital and collective impairment provisions for bad and doubtful debts less intangible assets, investment properties and property, plant and equipment.

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

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

Goodwill – Goodwill arises on the acquisition of subsidiary undertakings, joint ventures, associates or businesses and represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition.

Impaired loans – Loans where a specific event has occurred that has indicated that the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Individually/collectively assessed – Individual assessments are made on all mortgage loans that are individually significant and objective evidence indicates losses are likely or the property is in possession. A collective impairment provision is made against the remaining homogeneous group of loans and advances where objective evidence indicates that it is likely that losses may be realised.

Internal Capital Adequacy Assessment Process (ICAAP) – The Group's own assessment, as part of Basel II requirements, of the levels of capital that it needs to hold in respect of the risks it faces under a business as usual scenario and a variety of stress scenarios.

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

Lending limit – Measures the proportion of business assets not in the form of loans fully secured on residential property. The calculation of the lending limit is explained in the Annual Business Statement.

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

Liquidity risk – The risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash inflows and outflows.

Glossary continued

Loan to value ratio (LTV) – A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI)).

Loans past due/past due loans – Loans on which payments are overdue including those on which partial payments are being made.

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

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

Mean total assets – Represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.

Medium term notes (MTN) – Corporate notes continuously offered by a company to investors through a dealer.

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

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

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

Non-recourse finance – A secured loan (debt) that is secured by a pledge of collateral but for which the borrower is not personally liable. If the borrower defaults, the lender/issuer can seize the collateral, but the lender's recovery is limited to the collateral alone.

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

Operational risk – The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.

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

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

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

Prudential liquidity (ratio) – Proportion of total Shares and borrowings that are held in the form of cash or highly liquid assets (including Treasury Bills).

Renegotiated loans – Loans are classed as renegotiated with the customer's consent, when their terms have changed during the year. Loans and advances are generally renegotiated either as part of an on-going customer relationship or in response to an adverse change in the circumstances of the borrower.

Repo/Reverse repo – Short-to medium-term funding agreements which allow a borrower to sell a financial asset, such as ABS or Government bonds as security for cash. As part of the agreement the borrower agrees to repurchase the security at some later date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future), it is a reverse repurchase agreement or reverse repo.

Residential mortgage backed securities (RMBS) – A category of asset backed securities (ABS) that represent interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Risk appetite – The articulation of the level of risk that the Group is willing to take (or not take) in order to safeguard the interests of the Society's members whilst achieving business objectives.

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

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

Shares – Money deposited by a person in a retail savings account with the Society. Such funds are recorded as liabilities for the Society.

Shares and borrowings – The total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, including accrued interest and fair value adjustments for hedged risk.

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

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

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

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

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

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

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