Annual Report and Accounts

Year ended 31 March 2014

the West Brom

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Contents

Key highlights from the 2013/14 financial year include:

- A return to profit, with pre-tax profits of £2.1m (2012/13 restated: loss of £9.1m).
- A strong improvement in net interest margin to 0.81% (2012/13: 0.49%).
- Following a return to the residential lending market, gross lending of £213.6m (2012/13: £19.3m).
- An increase in the Group's strong Common Equity Tier 1 capital ratio from 12.8% to 13.4%.
- Retail savings inflows of £1.5bn, attracting 18,417 new savers, with residential mortgages covered 1.10 times by retail deposits.

> The West Brom has returned to profit, a landmark achievement and direct result of the 'Back to Basics' strategy implemented in 2009.

Chairman's Statement

Mark Nicholls

Back to Basics – a milestone achieved

The last year has been another one of progress for the West Brom and one with a significant milestone; the Society's return to profit. This completes, a little ahead of schedule, a key stage of the 'Back to Basics' strategy we set out in 2009. At the same time, we have continued to make progress in our return to the residential mortgage market, established a new partnership with Towergate Financial for the delivery of financial advice and continued to reduce our exposure to the legacy businesses identified in our strategy as being non-core. Details of our financial performance and other achievements are covered in the Chief Executive's Review and the Strategic Report that follow.

Economic update

Early signs of recovery in the UK economy gained momentum throughout the course of the year. The tone of commentators and independent forecasters has been increasingly optimistic and is supported by both key economic indicators and rising business confidence. A combination of this renewed confidence in the economy, historically low interest rates and increased availability of mortgages, has contributed to a strengthening of the housing market. The year to March 2014 experienced an increase of 30.4% in UK mortgage lending compared with the previous 12 months, and house prices increasing, on average, by 8.7% albeit with some quite wide ranging regional differences. This has, inevitably, led to warnings of an overheating housing market and calls for the government to rein back on initiatives such as Help to Buy.

Whilst the effects of low interest rates have been beneficial for the housing market, they have been less favourable to savers and it is likely that there is some way to go before the situation normalises. Given this, it was very encouraging to see the steps taken by the government in the budget in March. Raising the ISA limit and allowing transfers between equity and cash ISAs has long been campaigned for by building societies. Further, and in addition to the new ISA limit, the increase in the amount which can be earned before savings tax is levied has meant that the capacity for savers to earn tax-free interest has grown significantly, helping to relieve the pressure of recent years.

Regulatory environment

The pace of change across the regulatory landscape has continued, with two new regulatory bodies – the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) – replacing the Financial Services Authority (FSA) and establishing their respective plans for the oversight of financial services within the UK. The Society has been actively enhancing its relationships with both the regulatory bodies and is committed to working with them in the coming years. In doing so, we will ensure that the Society is well positioned to address any new and emerging regulatory changes.

During the year, the Society successfully managed the impact of three major regulatory changes:

- the Retail Distribution Review, impacting on the way in which we offer financial advice;
- the Mortgage Market Review, introducing changes to the provision of mortgages; and
- a new Capital Requirements Directive, CRD IV, aimed at strengthening capital adequacy.

The Strategic Report describes how each of the above has been implemented and the resultant impact on the Society and its customers.

Governance

Shortly after the year end, John Ainley retired as a Non-Executive Director on the expiry of his term of office. I thank him for his positive, insightful contribution and commitment.

Andrew Jones also retired after three years as an Executive Director. I would like to take this opportunity to express our gratitude to Andrew for his tremendous contribution.

This year, as explained in the Directors' Remuneration Report, we have moved in line with the desire for increased transparency and member engagement in respect of Directors' remuneration by introducing an advisory vote for members on the Society's Remuneration Policy for Directors. This is in addition to the existing vote on actual remuneration paid, which received support of over 87% of members at the 2013 Annual General Meeting.

A confident future

We do of course still have the legacy issues that the current management team inherited in 2009, although significantly less than we have experienced in recent years. We might, therefore, still encounter a little volatility if there is a reversal in the progress of the UK economy. But that aside, the continued trend of improved financial performance, resulting in a return to profit in the last financial year, coupled with the significant advances that have been made in re-establishing the West Brom as a major provider of residential mortgages, is what will underpin the Society's future. It is a future that the Board remains excited by.

Finally, I would like to take this opportunity to thank our staff and Executive team for all their efforts and commitment in helping to deliver what has been an excellent year for the Society. I also thank the Society's members for their continuing loyalty and support.

Mark Nicholls
Chairman
28 May 2014

Chief Executive's Review

Jonathan Westhoff

The UK economic recovery has followed a steady upward path during the past financial year, renewing market confidence and creating a positive view of the future. Against this backdrop, I am pleased to report that the West Brom has returned to profit, a landmark achievement and direct result of the 'Back to Basics' strategy implemented in 2009. Since then, the Society has remained resolute in its commitment to the traditional building society model and the delivery of long-term value for its membership.

An overview of performance

2013/14 was a very encouraging year in which the Society returned to profit, following a five year period of loss-making, and strengthened its capital position thereby creating the right conditions for a period of sustainable growth.

Profit before tax was £2.1m (2012/13 restated: loss of £9.1m), with the prime driver being a rise in net interest margin from 0.49% to 0.81%, albeit this remains considerably below the levels experienced in the six years leading up to the financial markets crisis of 2009, which peaked at 1.22%.

The improvement in 2013/14 was in part due to the impact of government initiatives to stimulate economic activity, which resulted in the cost of funding starting to reduce in the second half of the financial year. However, whilst this was very encouraging, funding costs, relative to Bank Rate, remain elevated compared with the period before the financial crisis in 2009. To offset, in part, the impact of this, rates on certain buy to let loans were increased. An action group has challenged this decision. The Society, however, is satisfied that its actions are legally permitted, appropriate and in the best interests of the membership as a whole.

The result for the year also includes a £5.1m gain on the revaluation of the investment property portfolio, evidencing the improving economic landscape and the upward trend in UK property prices.

Underpinned by a new mortgage processing platform and a comprehensive suite of products, the Society's return to the residential lending market gathered pace with gross lending of £213.6m (2012/13: £19.3m). Due to the active management taken to reduce exposure to non-core lending, total lending assets reduced by £290.6m.

The Society has long been clear in its aim for a controlled withdrawal from commercial lending activities. To this end, commercial mortgage balances fell by 14.6% in the year, reducing the total exposure from £1.7bn (when the Society exited from this business in 2008/9) to £0.9bn, of which £177.9m is securitised (2012/13: £216.6m).

The replacement of legacy higher risk assets with lower risk prime residential mortgages that are fundamental to the traditional building society and the return to profit, has resulted in the continued strengthening of the Society's capital position. This progress has delivered an improvement in the Common Equity Tier 1 capital ratio (the key measure of financial resilience), to 13.4% (2012/13: 12.8%).

Strategic investment

While cost effectiveness remains a priority, strategic investment is essential to facilitate growth and deliver an efficient operation which will generate member value in the future.

In early 2014, we added a new intermediary mortgage system to the new mortgage platform implemented in 2012/13. This completes a £2.4m overhaul of our mortgage operations which now means that the Society has a scalable operation, sufficient to support lending plans for years to come.

In 2015 Head Office staff will move premises to Providence Place within West Bromwich. This new building represents a modern, efficient and environmentally friendly base from which the business can expand with our people fully equipped to support and serve our membership.

Putting members first

The Board's commitment to core building society principles remains unaltered. As a mutual organisation the delivery and preservation of member value underpins all decisions.

Being guided by this model of a traditional building society, the West Brom looks after the interests of its members by offering prime residential mortgages, retail savings and investments which meet their specific needs.

Mortgages – value and choice

Throughout a period of significant economic turbulence, building societies have emerged strongly and are trusted mortgage and savings providers. Supporting members in purchasing their own homes, the West Brom has expanded its mortgage market presence in 2013/14 by consistently offering a range of competitive deals available via branch, direct and intermediary channels.

We have responded to the difficulty many prospective homeowners have in raising large deposits by opening up accessibility to higher loan to value (LTV) products. With 14% of our lending in 2013/14 to first time buyers (up to 90% LTV), the extent of this support is clearly seen.

A significant proportion of borrowers continued to benefit from mortgages linked to the low Bank Rate and, accordingly, the level of accounts in arrears by three months or more, in our core residential mortgage book, remained below the sector average at 1.49%.

Savings – flexibility and ease

The extended low interest rate environment has inevitably impacted savers. Rates fell further during the year, partly as government initiatives contributed to a lessening of the previously intense competition for retail deposits. The Society sought to moderate the effect on its savers by keeping rates competitive.

Throughout 2013/14, the West Brom offered savers a choice of straightforward and easy to understand products – operated via branch, telephone, post or internet – to match their individual preferences. The Society's Fixed Rate Regular Saver Accounts promote the benefits of regular saving and have featured frequently in the Best Buy tables.

The Society is, as outlined by the Chairman already, supportive of the recent budget announcements in relation to tax-free savings. From 1 July 2014, the ISA limit increases and allowable transfers between equity and cash ISAs give savers more flexibility. The West Brom is fully committed to the new ISA arrangements. When the limit increases in July, members with fixed rate ISAs opened in 2014/15 will be allowed to make additional deposits for a three month period, ensuring they do not miss the chance to save even more tax-free.

Financial planning – diversity and reassurance

In the wake of the FCA's Retail Distribution Review, many financial institutions took the decision to cease provision of financial planning services. The West Brom, however, recognises the importance of supporting members in achieving a secure financial future and the need they have for quality advice to support that aim.

In December 2013, the Society partnered with Towergate Financial – a leading national financial advisor – to give members independent financial advice and access to the full spectrum of investment, pensions and protection products available in the marketplace. The first four months of the partnership have demonstrated that it is a service highly valued by our members.

Mutuality – valuing members' views

Being a building society means that the Society is owned by and run for the benefit of its members, which is why finding out their views and opinions is of paramount importance.

At the Society's Annual General Meeting (AGM), members can voice their views, ask questions on key issues and vote on the election of the West Brom's Board of Directors. This year, as explained in the Chairman's Statement and Directors' Remuneration Report, we have also introduced, voluntarily, an advisory vote for members on the Society's Remuneration Policy for Directors. This is in addition to the existing vote on actual remuneration paid.

I host Members' ViewPoint events in a variety of the Society's core locations, offering the opportunity for members to provide feedback on a range of subjects. These events offer valuable insight from our members and are used to help refine our products and services. In the financial year three events were held.

2013/14 saw the launch of a survey measuring the satisfaction of customers who have completed a mortgage with us. Customers were asked questions relating to their experience, from application through to completion, and an average score of 4, out of a possible 5, was achieved. Whilst a strong score, we are targeting improvement for 2014/15.

Improvements were made to our customer literature during the course of the year, with an emphasis on providing consumer-friendly, transparent information. Research workshops were carried out with both existing members and non-customers and their feedback was used to shape the final literature.

The quality and variety of customer research undertaken ensure that we constantly focus on improving products and services for those who matter most – our members.

Contributing to our communities

One of the West Brom's underlying principles is a desire to make positive and meaningful contributions to the communities we serve. It is an essential part of what defines us as a mutual organisation and a source of tremendous pride for our staff.

A major focus for our fundraising efforts during the year has been our nominated charity Marie Curie Cancer Care, as chosen by our colleagues. Numerous fundraising events have helped us to amass more than £25,000 for this fantastic cause, which will be directed towards supporting patients with terminal illnesses and their families throughout the West Midlands region.

Often as important as giving money is the notion of giving time, and our corporate volunteering policy ensures our staff can deliver this to help causes and projects that matter to them. Examples include Birmingham Children's Hospital, already linked to the Society through our Red Balloon Appeal affinity account. A team of volunteers visited the Burns Centre at Christmas to decorate the outpatients area and prepared festive activity packs to occupy children who were waiting for their appointments.

Without doubt the essential touch-points for community activities are our branches, where the West Brom has a much needed physical presence on many high streets. Community support this year has manifested itself through our ongoing Community Counts campaign, whereby branches nominate local charitable groups for a grant and our members have the casting vote on how the money is shared. The scheme has unearthed some truly outstanding causes and many unsung heroes who are striving to improve other people's lives and fight social hardship.

Grants made through Community Counts are made possible because of the Society's longstanding affinity partnerships. Monies are raised through our Community Account and donations administered through the Mercian Community Trust, ensuring the West Brom is able to assist a range of worthy charities encompassing health, dementia, disability, vulnerable children, people with learning difficulties, bereavement and domestic violence.

Outlook

Reflecting on the return to profit, strengthened capital position, our strong investment in infrastructure and improving economic environment, the West Brom can face the future with considerable optimism. Whilst there remain some legacy issues to resolve, which might result in some volatility in financial performance, the trend remains very positive.

Residential mortgage activities are expected to increase in 2014/15 as the Society supports yet more members with their home ownership aspirations, all within a framework of responsible lending. The West Brom has implemented fully the new Mortgage Market Review (MMR) requirements, which came into force in April 2014 and prescribe a mortgage market that works better for consumers. The Society welcomes any such changes that deliver benefit to members and reduce the risks of individuals over-extending themselves financially.

Going forward, the West Brom will continue its programme of investment. Having completely renewed our branch network and lending capabilities, we look forward to unveiling the new Head Office in Spring 2015. This modern and functional workplace will ensure the business can grow, equipped with all the facilities needed to provide the efficient, friendly and professional service our members expect.

The progress made to date could not have been accomplished without the hard work and dedication of all my colleagues throughout the Society. I would like to take this opportunity to thank them all for their dedication and the care they demonstrate on a daily basis in looking after our members.

Jonathan Westhoff
Chief Executive
28 May 2014

Strategic Report

The Strategic Report replaces the previous Financial Review and Corporate Responsibility Report to provide a clear, balanced and understandable review of the development and performance of the Society, its business model and strategic framework.

Strategy and operating environment

The West Brom is the 7th largest building society in the UK. As a mutual organisation the Society is owned and run for the benefit of its members with the safety of members' funds being paramount. In providing a safe haven for our members' funds, the Society can fulfil its primary purpose of enabling home ownership through the provision of mortgages.

The Society is not only exposed to the markets within which it operates but also changes in wider economies that indirectly impact the UK market. Prior to the financial crisis the Society had diversified into lending segments, such as commercial lending, that were more sensitive than traditional residential lending to an economic downturn. This has impacted negatively on financial performance over recent years, and restricted the ability to grow the business. However, in 2009 the Society placed renewed emphasis on the traditional building society model by adopting what was described as a 'Back to Basics' approach, where the focus is on the core competencies of retail savings and prime residential mortgages. This alignment to the distinctive nature of a building society – a business drawing its strength and purpose from its members – has enabled the Society to cope with the challenges presented by the economic uncertainty arising from the global financial crisis.

This change in strategic direction from the Society's previous diversification programme involved a shift in operational capabilities towards the recognition, management and reduction in the inherent risk within the balance sheet, re-balancing of the Society funding base towards retail savings deposits and a focus on cost reallocation to enhance operational efficiency and customer offering.

These core tenets have remained at the heart of the Society's strategic realignment over the past five years and have facilitated the stabilisation, de-risking and re-positioning of the Society to deliver value for our members.

Despite global economic growth faltering in recent years, improved UK consumer confidence, business sentiment and increasing activity in the residential property market all point towards a period of growth for the UK economy. This has provided a positive backdrop against which the Society has formulated the following strategic priorities in continuing to deliver its Back to Basics strategy.

Back to Basics Strategy

Primary Activities

- **Savings and Investments**
- **Mortgages and Protection**

Strategic Priorities

Security

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

Members

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

Efficiency

- Cost efficiency will underpin all components of our operating model.
- Existing resources will be leveraged to deliver acceptable returns.
- We will seek to exploit technology at every stage of the operating model to reduce the cost of service delivery.

Business Model

The Society's strategic aims have resulted in a business model split between core and non-core activities. Our emphasis on the core 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.

The Group is organised into three main business segments:

Retail – residential lending, delivered through branch, direct and intermediary channels supported by retail savings products offered to customers through branch, internet and direct. Investments, general insurance and protection are sold directly in our branches and in partnership with Towergate Financial. This segment also includes non-core second charge lending which is in run-off;

Commercial – the provision of finance for commercial real estate investment. This activity is considered non-core and inconsistent with the traditional building society model and is, therefore, being managed down; and

Property – a portfolio of residential properties held to generate rental income. During 2008, the Board concluded that it would not add any further investments and would, over time, respond to opportunities to dispose of properties where it was economically advantageous to do so. The portfolio is managed by Andrews Property Services, a well-respected property management company.

All of the above are supported by central functions which provide Finance, HR, IT, Compliance and Risk Management capabilities. Funding is reviewed on a Group-wide level with the Treasury and Finance functions managing the day to day cash flows of the business, along with providing wholesale funding and ensuring the effective allocation of capital and liquidity.

Key performance indicators

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

Review of 2013/14

The profit before tax of £2.1m is significantly up from the prior year restated loss of £9.1m, realising the benefits of the Board's enduring commitment to the Back to Basics strategy.

Throughout years of economic turbulence, the Society has remained resolute in its focus on the traditional building society model and the delivery of long-term value for its membership.

Decisive capital management has achieved a profit for the year and further reduced the Group's exposure to legacy portfolios. This robust capital base means the Society can be confident in its ability to grow sustainably and firmly establish its position as a leading regional financial services provider.

The Society reports excellent performance in the following key areas:

Profit before tax – Profit for the first time since 2008, evidencing the success of the Back to Basics strategy;

Operating profit – Operating profit before impairments, provisions and revaluation gains/(losses) significantly increased to £16.9m (2012/13: £4.3m);

Net interest margin – A strong increase in net interest margin to 0.81% (2012/13: 0.49%) following an easing of competition in the funding markets as lenders took advantage of various government funding initiatives;

Lending – Gross lending of £213.6m (2012/13: £19.3m) as the Society extends its range of competitive deals for new and existing borrowers; and

Capital – Focused capital management, delivering an improvement in the Group's Common Equity Tier 1 ratio, up to 13.4% from 12.8% in 2012/13, under the CRD IV capital regime introduced in January 2014.

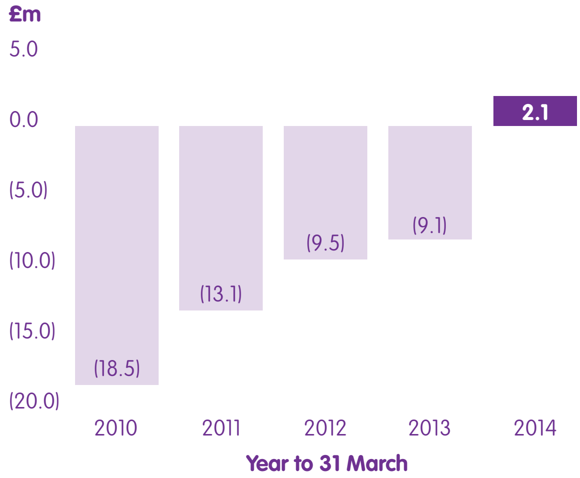
Performance overview

Key performance indicators

The statutory result before tax is used to monitor the performance of the Group. The statutory result before tax is the most commonly used measure of profitability.

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

Profit before tax on continuing operations



The significant improvement in performance was driven primarily by an increase in net interest receivable from £33.7m in 2012/13 to £48.2m. Interest expenses reduced during the year as access to lower cost funding, through government supported schemes, initiated a lessening in market demand for retail deposits. Despite this reduction, funding costs remained elevated, relative to Bank Rate. To partly offset this, interest income rose as interest rates on certain buy to let loans were raised to, what remain, historically low margins.

Overview by business division

Year to 31 March

	2014 £m	2013* £m
Retail	**7.3**	4.4
Commercial	**(9.7)**	(14.3)
Property	**5.7**	0.5
Intercompany adjustments	**(1.2)**	0.3
Total Group profit/(loss) before tax	**2.1**	(9.1)

* Restated due to a change in accounting policy, as described in note 1 to the Accounts.

Retail

The Retail segment's principal activities are residential lending and retail savings.

The strong pre-tax profit is the result of actions taken to drive forward the Back to Basics strategy, supported by a market-wide realignment of lending and funding rates and a general improvement in economic conditions.

Net interest income recovered somewhat during 2013/14 as interest rates on a proportion of the Group's buy to let portfolio were increased and initiatives, such as the Funding for Lending Scheme (FLS), helped to relieve the previously intense competition for retail deposits.

The Group's mortgage market participation stepped up during the year with reported gross lending of £213.6m (2012/13: £19.3m).

Residential credit management remains a priority and, notwithstanding the Group's responsible approach to forbearance, just 1.74% of accounts were in arrears by three months or more at the end of the year. Charges for impairment were just £2.7m from £4.1m in the previous year.

The FCA's Retail Distribution Review (RDR), which came into effect on 31 December 2012, has made substantial changes to the investment advice market. RDR clarifies how much consumers pay for financial advice and introduces a minimum level of qualification for all investment advisers. The changes resulted in many institutions exiting the financial planning market altogether. The West Brom attributes great value to supporting members in establishing and working towards their financial goals. The Society has therefore partnered with Towergate Financial – a leading national independent financial advisory business – to give members market-wide access to investments, pensions and protection products which meet their individual needs. Under the new partnership structure, the costs of the operation are incurred by Towergate Financial, with the Society receiving a share of fee income generated.

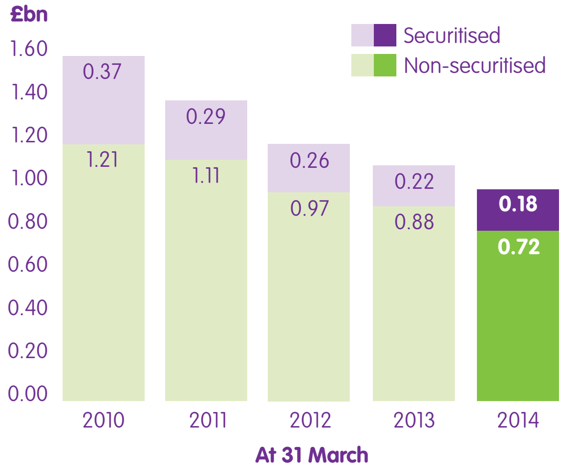
Commercial

While the residential property market acquires momentum, the recovery of the commercial real estate sector is more tentative.

Prudent credit risk management policies were employed throughout the year with provisions recognised wherever there was objective evidence of impairment. The impairment charge of £10.9m (2012/13: £6.7m) was the main contributor to the divisional loss of £9.7m (2012/13: £14.3m). £3.0m of this charge was offset by fair value gains on related derivative contracts, put in place to mitigate the effect of interest rate risks associated with holding these exposures.

The Society has a clear strategy for its measured exit from the commercial lending market. Indeed, the level of exposure to commercial mortgages has reduced continually, from £1.7bn in 2008/9 to £0.9bn, of which £177.9m (2012/13: £216.6m) is securitised.

Commercial lending balances



Property

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

In line with the Board's strategy to manage down non-core activities, 17 properties were sold during the year. An upward trend in UK property prices resulted in a revaluation gain of £5.1m (2012/13: loss of £0.2m) on the remaining portfolio which is valued at £115.2m at 31 March 2014 (2012/13: £112.5m).

Despite the disposal of investment properties in the year, trading profit was stable at £0.6m (2012/13: £0.7m), signalling a healthy rental market and an efficiently managed portfolio.

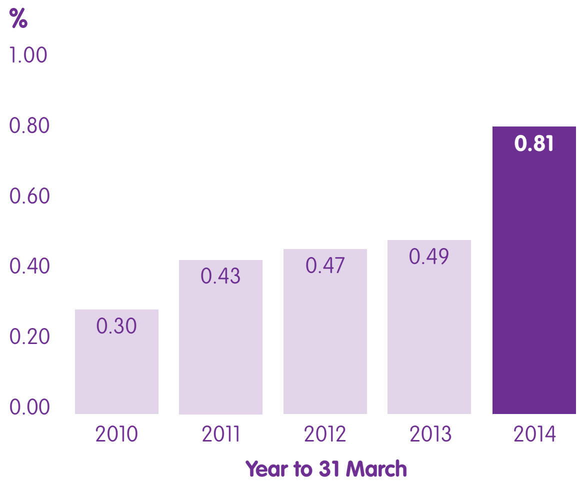
Financial performance – Group

Net interest margin

Key performance indicator
Net interest margin is calculated as net interest income expressed as a percentage of mean total assets.

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

Net interest margin



During 2013/14 the net interest margin increased to 0.81% (2012/13: 0.49%) with the key drivers being:

- A reduction in interest expenses as the demand for retail deposits alleviated and lenders took advantage of various government initiatives;
- An increase of interest rates on certain buy to let loans following an extended period of market disruption with Bank Rate held at its all-time low of 0.5% for the past five years;
- Close management of the liquidity portfolio, with holdings of high quality liquid assets maintained above regulatory requirements but not at excessive levels, given the modest returns on such assets;
- A significant proportion of borrowers continuing to benefit from mortgages linked to the low Bank Rate, with an average interest rate charged on residential loans in the financial year of 2.83% (2012/13: 2.54%); and

- Unwavering focus on the managed wind-down of the non-core commercial loan portfolio which falls outside of the Board's risk appetite and strategic vision.

Notwithstanding the improvements experienced to date, rising competition in the residential lending arena and the low interest rate environment look set to constrain interest margins for the foreseeable future, with no immediate prospect of a return to pre-crisis levels.

Other income

Key performance indicators
The Board monitors other income in absolute terms. Other income primarily represents income earned from the sale of non-margin related products. These include commission on the sale of insurance (in particular home and contents) and investment related products, together with fees earned on lending and property rental activity.

Other income was £9.3m, compared with £9.9m in 2012/13, partly due to a reduction in pension scheme income following a revision to accounting standards.

Rental income, attributable to the residential letting business, was broadly neutral despite the Group pursuing its withdrawal from non-core business lines by disposing of 17 investment properties during the year.

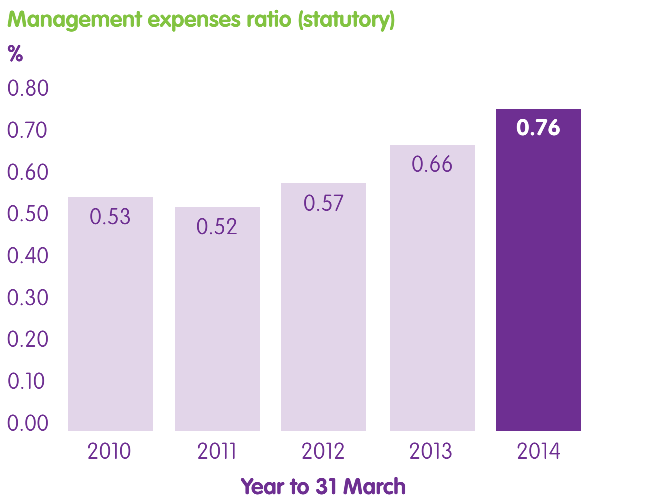
In contrast to many banks and building societies, the West Brom continues to offer valuable financial planning services via its new partnership with Towergate Financial. This arrangement enables members to access the full range of investment, pensions and protection products available in the market. The costs of delivering financial advice are now incurred by Towergate Financial and the Society receives a share of fee income generated. The resultant decrease in fee income for the year was offset by other one-off commission and profit share items.

Management expenses

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

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

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



The Society operates a continuous improvement culture, in which cost and process efficiencies are viewed as essential in generating capital for future growth and stability. Cost savings will not, however, be effected to the detriment of the Society's strategic goals and principles of service excellence.

Since 2009, the Society has invested in reshaping the business and positioning itself for a period of sustainable growth. The branch network and lending systems have been fully updated. A new modern and environmentally friendly Head Office building is well underway for completion in Spring 2015. These investments, combined with a contracted asset base and the significant costs of regulation, have resulted in a temporarily elevated management expenses ratio of 0.76% (2012/13: 0.66%).

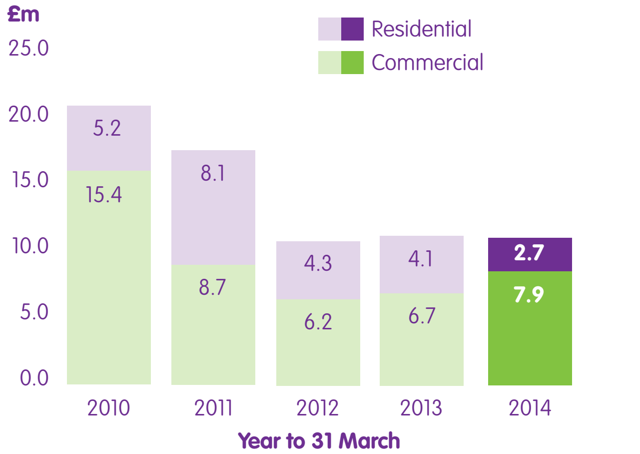
Impairment provisions on loans and advances

Key performance indicators

The Board monitors the underlying level of impairment provisions, calculated as the absolute charge less offsetting fair value movements on derivatives used to hedge the impaired loans. The indicator measures the credit risk performance of the assets (i.e. the lower the credit performance of the assets, the higher the losses). Provisions include the losses incurred or those losses expected to be incurred (based upon events that have already happened) and are calculated both individually and collectively on groups of assets with the same credit characteristics.

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

Underlying charge for impairment losses on loans and advances



The Board continues to take a prudent view when determining the appropriate level of provisions and the underlying charge for impairment losses on loans and advances was £10.6m (2012/13: £10.8m).

The charge for residential provisions has reduced for the third consecutive year to £2.7m (2012/13: £4.1m), due to the underlying quality of the residential loan books combined with the effects of a nationwide uplift in house prices.

The impacts of economic growth and accelerated mortgage market activity have been less visible in the commercial real estate sector, although some improvements in tenancy rates and property prices have been observed. Impairment charges against commercial loans were £10.9m (2012/13: £6.7m). Of this expense, £7.9m is considered attributable to underlying performance and £3.0m is offset by fair value gains on derivative financial instruments. As these instruments failed to meet the strict criteria for hedge accounting, the offsetting income is recognised on a separate line in the Income Statement.

At the end of the period, the Group had £58.3m (2012/13: £62.8m) set aside for potential losses from exposures to the commercial lending portfolio, equivalent to 6.2% of the current loan book (2012/13: 5.7%). The commercial property sector is considered particularly vulnerable to any unforeseen setbacks in the UK economic recovery. As such, the Board is committed to maintaining an appropriate level of cover against these non-core commercial assets.

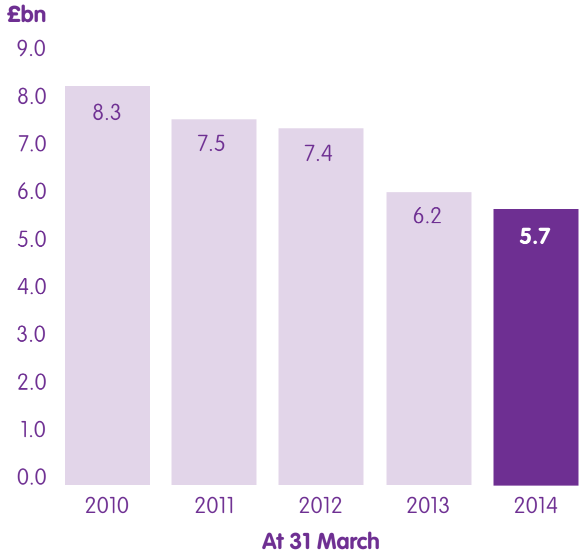
A key strategy in mitigating the losses incurred on commercial loans is identifying circumstances where the Society taking control of the underlying security results in a better outcome, from a recovery perspective. In accordance with this policy, £360.5m of commercial mortgage assets were managed through a Law of Property Act Receiver at the end of the year (2012/13: £338.3m).

Financial position

The profit for the year and continued programme of de-risking the balance sheet have further enhanced the Group's capital position and thereby its basis for future growth and stability.

Total assets at the end of the year were £5.7bn (2012/13: £6.2bn), with legacy higher risk assets being replaced by prime residential mortgages, moving the Society yet closer to its core building society principles.

Group total assets



Loans and advances to customers

Loans to customers comprise residential lending through the Society, West Bromwich Mortgage Company Limited and White Label Lending Limited; and commercial property lending, through West Bromwich Commercial Limited.

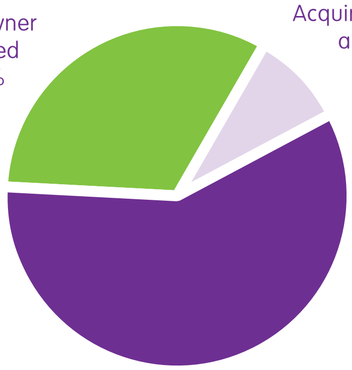
The Society is operating with an intensified focus on prime residential lending. The managed run-off of legacy portfolios has continued throughout the period and the West Brom has extended its exposure within the mortgage market with a range of competitive products available via branch, direct and intermediary channels.

Residential

Residential mortgages represent prime advances, including buy to let, made through the Society's branches and intermediary channels, together with mortgage portfolios acquired through the Society's subsidiary company, West Bromwich Mortgage Company Limited, although no such portfolios have been acquired since 2005.

At the end of the period, the residential mortgage portfolio was divided 32.3% prime owner occupied, 58.6% buy to let and only 9.1% acquired portfolios and other.

Analysis by lending type at 31 March 2014



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

At 31 March Residential loans analysis by region

	2014 £m	2013 £m
East Anglia	**93.8**	95.4
East Midlands	**330.4**	341.3
Greater London	**648.8**	675.9
Northern Ireland	**6.6**	7.0
North	**115.6**	116.4
North West	**395.0**	403.0
Scotland	**150.1**	161.3
South East	**681.1**	691.2
South West	**293.8**	304.2
Wales	**190.0**	201.4
West Midlands	**681.0**	720.1
Yorkshire	**239.3**	242.1
Total	**3,825.5**	3,959.3

Key performance indicators

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

The principal industry standard and Board measure is the number of cases where the borrower has missed more than three monthly payments. With a contracting book, the percentage arrears figures can increase without any significant increase in the absolute number of accounts in arrears.

At 31 March 2014 Group arrears

	Total balances £m	3 months+ %
Prime	**1,237.0**	**1.65**
Buy to let	**2,238.9**	**0.76**
Acquired portfolios and other	**318.9**	**5.47**
Core residential	**3,794.8**	**1.49**
Second charge lending	**30.7**	**8.57**
Total	**3,825.5**	**1.74**

At 31 March 2013 Group arrears

	Total balances £m	3 months+ %
Prime	1,208.6	1.80
Buy to let	2,359.0	0.96
Acquired portfolios and other	356.9	6.21
Core residential	3,924.5	1.74
Second charge lending	34.8	6.77
Total	3,959.3	1.92

At 1.74% (2012/13: 1.92%), residential mortgage arrears are in line with expectation given the careful assessment process applied to forbearance arrangements and the general economic environment. While the UK economy is in better overall health, we have yet to see more than modest improvements to real household incomes, although employment rates improved notably in the second half of the financial year.

Excluding the impact of the closed, non-core second charge and acquired portfolios, the level of loans three months or more in arrears in the residential loan book is significantly lower at 1.16% (2012/13: 1.34%).

The Society actively seeks to support those borrowers who are experiencing genuine financial hardship, so enabling them to remain in their homes if this is believed to be in their best interests (i.e. where the loss to the customer is not likely to increase over time). Forbearance measures take a number of forms depending on individual customer circumstances. Short-term solutions focus on temporary reductions to contractual payments. For customers with longer term financial difficulties, term extensions may be offered, which may also include interest rate concessions. The Society's approach to forbearance is described in more detail in note 34 to the Accounts.

Government initiatives such as the Funding for Lending and Help to Buy schemes, combined with a general upturn in economic sentiment, have stimulated activity in the residential mortgage markets. Intense competition amongst lenders has driven down interest rates, most notably for low loan to value products. House prices continue to rise, particularly in and around London, and market commentators have expressed concerns as to whether this upward trajectory is sustainable.

The Society's comprehensive pricing models and strict affordability criteria ensure all new lending is undertaken within the Board's credit risk appetite. The West Brom processes all new mortgage applications in accordance with the rules of the

Mortgage Market Review (MMR) which took effect from 26 April 2014 and represents a fundamental change in how the mortgage industry is regulated. Lenders are required to act responsibly and make affordability a key consideration in any decision to offer mortgage funds.

The impact of implementing MMR was minimised through the Society's choice to cease non-advised mortgage sales some time ago. However, key systems changes have required enhancement to comply with new affordability requirements designed to ensure borrowers can manage repayments for their chosen mortgage.

The quality of mortgages advanced during the year is high, with no accounts three months or more in arrears at 31 March 2014.

Commercial

The volume of high profile business failures in recent years indicates the sensitivity of the commercial property sector to the challenges facing the UK economy; hence a controlled exit from the commercial real estate market remains a key strategic priority. Considerable progress has been made to date with a reduction in exposure of £758.5m since 2008/9.

During the year, balances secured on commercial property assets fell by 14.6% to £905.5m (2012/13: £1,060.8m). Loans fully secured on residential property, managed by the Commercial division, reduced to £28.3m (2012/13: £36.4m). Of the remaining commercial balances, £177.9m is securitised (2012/13: £216.6m) with full provision made for the residual risk to the Society.

The sector split of the commercial loan portfolio is shown in the table below.

At 31 March Loans fully secured on commercial property

	2014 £m	2013 £m
Healthcare and leisure	**200.9**	222.4
Industrial and warehouse	**38.7**	62.3
Office	**151.1**	178.8
Retail	**436.6**	484.0
Other	**24.1**	26.4
Fair value adjustments	**54.1**	86.9
Total	**905.5**	1,060.8

Funding

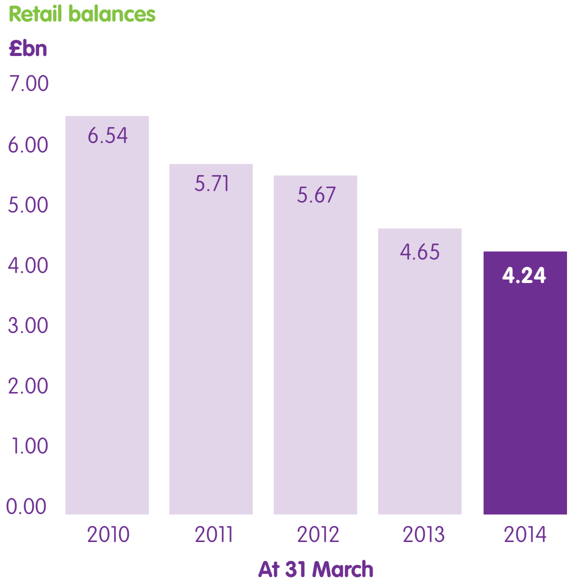
Key performance indicators

The key funding measure that the Board uses to assess the risk in its funding base is the wholesale funding ratio. The wholesale funding ratio measures the proportion of total Society shares and borrowings (including non-recourse finance) not in the form of retail savings products. It assesses the Society's relative exposure to the wholesale funding markets and it is the Board's aim to maintain this ratio at a stable low level.

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

Retail

Aligned to its core building society principles, the Society is primarily funded by retail savings balances, with residential mortgage assets comfortably funded 1.10 times (2012/13: 1.16 times) by these deposits.



Retail savings balances reduced during the year to £4.24bn (2012/13: £4.65bn), following the Society's successful securitisation activity in May 2013 and further investment in wholesale funding markets.

While savings rates appear to have stabilised, the increased funding demand to support growth in residential lending volumes, allied to uncertainty of the impact from the eventual withdrawal of the FLS, might result in pressure on retail funding costs beyond the short-term.

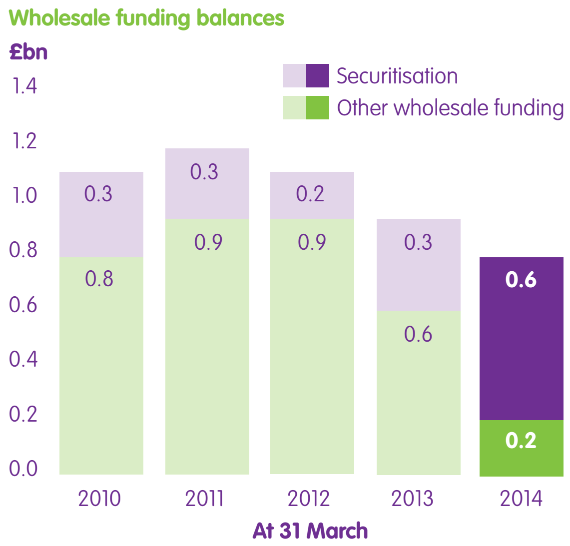
Wholesale

In May 2013 the Society took advantage of the opportunity to obtain cost-effective committed funding and successfully raised £380m via a residential mortgage backed securitisation. At the end of the year the wholesale funding ratio was 16.5% (2012/13: 16.7%).

The table below analyses the Society's wholesale funding portfolio.

At 31 March Wholesale funding sources

	2014 £m	2013 £m
Repo and other secured agreements	**74.5**	376.8
Deposits	**159.7**	221.5
Certificates of deposit	**3.0**	4.0
Securitisation	**599.5**	328.3
Total	**836.7**	930.6



Liquidity

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

- *Liquidity ratio – liquid assets as a proportion of shares and borrowings;*
- *'Buffer liquidity' – the most liquid and secure form of holding, comprising gilts, treasury bills, supranational bonds and reserves with the Bank of England. Buffer liquidity is assessed against limits set by the PRA;*
- *Liquidity coverage ratio (LCR) – high quality liquid assets as a proportion of stressed cash outflows over the next 30 days; and*
- *Net stable funding ratio (NSFR) – long-term assets as a proportion of long-term, stable funding.*

Effective liquidity management is central to the Society's objectives of providing customers with a secure home for their savings. At all times during the year, proactive liquidity management processes kept available liquidity above regulatory limits and at levels sufficient to cover lending commitments and other cash outflows.

Owing to their low-risk nature, liquid assets provide very modest returns relative to the cost of generating funds. It is therefore disadvantageous to hold excess liquidity and beneficial to closely monitor holdings such that the Board's risk appetite and regulatory requirements are met, with minimum detrimental impact to margins.

Liquidity holdings consist solely of high quality liquid assets with 100% of treasury investments rated single A or better (2012/13: 100%). The Society has no exposure to those markets where concerns have been expressed, including non-UK sovereign debt, or to any mortgage market outside the UK. No treasury assets were impaired at 31 March 2014 (2012/13: nil).

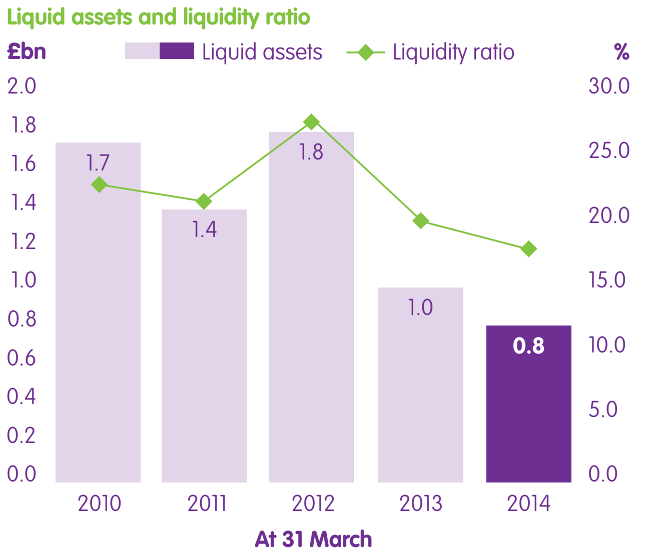
An analysis of the Group's liquidity position is shown below.

At 31 March 2014 Liquidity portfolio

	£m	%
Buffer liquidity		
- Bank of England Reserve	**126.0**	**16.4**
- Supranationals	**127.5**	**16.6**
Total buffer liquidity	**253.5**	**33.0**
Other securities – rated single A or better	**334.1**	**43.6**
Subsidiary/other liquidity	**179.7**	**23.4**
Total liquidity	**767.3**	**100.0**

At 31 March 2013 Liquidity portfolio

	£m	%
Buffer liquidity		
- Bank of England Reserve	384.5	37.0
- Supranationals	198.9	19.2
Total buffer liquidity	583.4	56.2
Other securities – rated single A or better	300.6	28.9
Subsidiary/other liquidity	154.9	14.9
Total liquidity	1,038.9	100.0



The Society's liquidity ratio decreased to 17.2% (2012/13: 19.8%) in line with a controlled reduction in on-balance sheet liquid holdings. As a consequence of the FLS, liquidity is available to financial institutions – who hold eligible collateral for security – in the form of treasury bills. The treasury bills do not appear on the balance sheet and do not affect the liquidity ratio of the institution until they are used to raise wholesale funding. For this reason the liquidity ratio cannot, in isolation, be used to assess an entity's liquidity position.

Basel III, implemented in the EU via legislative reforms known as CRD IV, became effective on 1 January 2014. It introduced strengthened global regulatory standards on bank capital adequacy and liquidity. Under Basel III, the Prudential Regulation Authority (PRA) requires regulated firms to report two new liquidity measures: the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). At 31 March 2014, the Society's LCR was 198% and its NSFR was 117%, comfortably meeting internal and regulatory requirements.

Capital

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.

New Basel III capital regulations came into effect on 1 January 2014. Some of the changes have been implemented in the EU via a regulation which applies directly to the UK, whilst some of the provisions of Basel III have been implemented via a directive which required approval by national regulators, the PRA in the UK. The new rules brought in by the EU regulations and the directive applied through the PRA, are referred to collectively as CRD IV.

The reforms implemented under CRD IV, bring in more stringent requirements for the eligibility of capital instruments. The focus is on having 'fully loss absorbing' capital referred to as Common Equity Tier 1. For the Society this includes reserves and profit participating deferred shares (PPDS).

Tier 1 capital that is not deemed to be fully loss absorbing can be included within capital as Additional Tier 1 capital under CRD IV, but only under transitional arrangements, which cover a nine year period. This applies to the Society's permanent interest bearing shares (PIBS). The Society must exclude 20% of the value of the PIBS from its eligible capital for 2014, and this deduction will increase by 10% every 1 January, with the final element being deducted on 5 April 2021, the earliest call date for the PIBS.

In addition to changes affecting the eligibility of capital instruments, CRD IV has brought in a number of deductions which are applied to capital; these are set out in the table that follows. Some of the deductions are temporary, applying only to the current year whilst others are expected to be a permanent feature of CRD IV.

Key performance indicators

The primary indicator used to monitor capital is the amount of Common Equity Tier 1 (CET1), being the strongest form of capital for any financial institution.

The CET1 ratio, being the amount of CET1 capital divided by risk weighted assets is considered to be the key ratio. In addition CRD IV has introduced a simpler non-risk based leverage ratio as a supplementary indicator. The leverage ratio is calculated as Tier 1 capital divided by total leverage ratio exposure. The relative simplicity of this measure is both a strength and a weakness. It removes the subjectivity associated with determining the risk weighting to be applied to each asset class, which can involve particularly complex models for the larger banks. In doing so, it effectively applies the same risk weighting to all asset classes when clearly the risks are not the same.

The table that follows includes both the Society's CET1 and leverage ratios. Figures have been quoted applying the current CRD IV transitional rules and also showing the full impact of CRD IV without the transitional rules. Comparatives have also been included for 2012/3 applying the same methodology to the 31 March 2013 figures, even though CRD IV did not then apply. This has been done to provide an indication of the year on year movement.

At 31 March

	Notes	Transitional CRD IV rules 2014 £m	Full implementation of CRD IV 2014 £m	Transitional CRD IV rules 2013 £m	Full implementation of CRD IV 2013 £m
Common Equity Tier 1 capital					
General reserves		**234.9**	**234.9**	238.2	238.2
Revaluation reserve		**3.4**	**3.4**	3.7	3.7
Available for sale reserve (AFS)		**4.4**	**4.4**	9.4	9.4
Cash flow hedging reserve		**0.2**	**0.2**	-	-
Profit participating deferred shares		**174.7**	**174.7**	174.4	174.4
Common Equity Tier 1 prior to regulatory adjustments		**417.6**	**417.6**	425.7	425.7
Regulatory adjustments:					
Unrealised reserves on available for sale assets	1	**(4.4)**	**-**	(9.4)	-
Unrealised reserves on investment properties	2	**(22.4)**	**-**	(18.9)	-
Cash flow hedging reserve	3	**(0.2)**	**(0.2)**	-	-
Intangible assets and goodwill	4	**(8.7)**	**(8.7)**	(7.9)	(7.9)
Deferred tax asset relating to operating losses	5	**(17.5)**	**(17.5)**	(16.7)	(16.7)
Other deductions		**(1.2)**	**(1.2)**	(1.7)	(1.7)
Common Equity Tier 1 capital		**363.2**	**390.0**	371.1	399.4
Additional Tier 1 capital					
Permanent interest bearing shares (PIBS)		**74.9**	**74.9**	74.9	74.9
Regulatory adjustments:					
Amortisation of PIBS under transitional rules	6	**(15.0)**	**(74.9)**	(15.0)	(74.9)
Total Tier 1 capital		**423.1**	**390.0**	431.0	399.4
Tier 2 capital					
Collective provision		**15.7**	**15.7**	15.1	15.1
Other deductions		**(0.6)**	**(0.6)**	(0.1)	(0.1)
Total capital		**438.2**	**405.1**	446.0	414.4
Risk weighted assets (RWA)					
Retail mortgages		**1,511.3**	**1,511.3**	1,633.3	1,633.3
Commercial loans		**862.9**	**862.9**	933.5	933.5
Treasury		**113.5**	**114.4**	114.4	116.3
Other		**115.3**	**137.7**	115.9	139.5
Market risk		**18.4**	**18.4**	21.4	21.4
Operational risk		**79.6**	**79.6**	70.0	70.0
Total risk weighted assets		**2,701.0**	**2,724.3**	2,888.5	2,914.0
Total exposure for leverage ratio		**5,605.3**	**5,632.2**	6,134.2	6,162.5
		%	**%**	%	%
Common Equity Tier 1 (as a percentage of RWA)		**13.4**	**14.3**	12.8	13.7
Tier 1 (as a percentage of RWA)		**15.7**	**14.3**	14.9	13.7
Total capital (as a percentage of RWA)		**16.2**	**14.9**	15.4	14.2
Leverage ratio		**7.5**	**6.9**	7.0	6.5

Reconciliation of total assets as disclosed in the Statement of Financial Position to the leverage ratio exposures

Total assets		**5,650.5**	**5,650.5**	6,202.8	6,202.8
Mortgage pipeline and committed facilities	7	**30.8**	**30.8**	12.8	12.8
Common Equity adjustments relating to assets		**(54.5)**	**(27.6)**	(55.2)	(26.9)
Netted derivative adjustment		**(21.5)**	**(21.5)**	(26.2)	(26.2)
Leverage ratio exposure		**5,605.3**	**5,632.2**	6,134.2	6,162.5

Notes

1. Under transitional rules unrealised gains within the AFS reserve are not included in capital for 2014. These amounts are included from 1 January 2015.
2. Under transitional rules revaluation gains relating to investment properties, which are part of general reserves, are not included in capital. These amounts are included from 1 January 2015.
3. The cash flow hedging reserve is not included in capital.
4. A full deduction is made from CET1 for intangible assets and goodwill.
5. Under the rules of CRD IV (transitional and on full implementation) deferred tax assets relating to previous operating losses are deducted from capital.
6. Under the transitional rules applicable to the current year, 20% of the value of PIBS is deducted from Tier 1 capital. For comparative purposes the same adjustment has been applied to the 2013 figures. Under the transitional rules the amortisation deduction is increased by 10% per annum every 1 January through to 2021, with the final 10% deducted on 5 April 2021, the earliest call date for the PIBS.
7. A 50% weighting is applied to mortgage pipeline and committed facilities as per the Basel III leverage ratio framework.

Each of the Society's capital ratios exceeds regulatory requirements. The Society's CET1 ratio at 13.4% under CRD IV transitional rules (2012/13: 12.8%), shows the Society to be a strong and financially resilient institution. The year on year improvement in the ratio has been achieved mainly through the ongoing programme of de-risking that the Society has been following in its Back to Basics principles.

The Society's CET1 ratio, projecting forward the full impact of CRD IV, further strengthens at 14.3% (2012/13: 13.7%) and benefits from the inclusion of revaluation and fair value gains which, under CRD IV, can be included as part of the Society's capital from 1 January 2015.

The Society's leverage ratio of 7.5% (2012/13: 7.0%) is particularly strong, at 2.5 times the minimum level set for the large banks. However, whilst this measure may have some value in benchmarking, it is not adjusted for risk and is only a very high level indicator.

Member engagement

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

Key performance indicators

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

- *Mystery Shopper – conducted across our branch network. Mystery shoppers record their experience on a scorecard against the standards that we expect our customers to receive;*
- *Real-time survey – a survey within our Contact Centre where members are asked to score our service at the end of their call and give us reasons for that score;*
- *Members' ViewPoint – these events provide face-to-face feedback from our members on our products, services and our work in the community. Three of these events have been held during the past year; and*
- *Postal and email surveys – we send our members short surveys by mail/email on a range of subjects e.g. a recent product purchase.*

Our Mystery Shopper programme is an ongoing quarterly measure of how our branches are performing against agreed standards. These standards have been devised to ensure we deliver the high level of service that our members expect to receive. These mystery shops are audio recorded which provides a valuable coaching tool to our Branch Managers.

The real-time survey in our Contact Centre is a short survey, offered to both existing and potential customers at the end of a phone call, which captures both a score and comments. This allows us to gain immediate feedback within a few minutes of the service being provided. As well as being a valuable motivational tool for staff, feedback from the survey also provides us with the opportunity to bring about customer improvements throughout the entire organisation, not just the Contact Centre. As a result of feedback we have received, we have made over 70 improvements across the Society to enhance our customer experience.

The popular Members' ViewPoint events urge members to openly convey their impressions of the Society to the Chief Executive and other senior executives. This valuable feedback is directly incorporated into product development activities.

Recognising the importance of providing consumer-friendly, transparent information and inspired by the output of research workshops with both existing and non-customers we made improvements to our customer literature this year.

New during 2013/14 customers who have completed a mortgage with us are asked various questions relating to their experience from application to completion. A pleasing average satisfaction score of 4, out of a possible 5, was achieved for the year.

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

The latest table, published in Q1 2014 and representing the period July 2013 to December 2013, quoted the performance of approximately 50 of the largest qualifying firms. Our performance for that period was around 97% resolved in favour of the Society; considerably better than our comparator firms. The Board considers this to be an excellent performance.

Corporate and Social Responsibility

As a mutual organisation, the West Brom believes in establishing supportive relationships with the communities it serves, particularly the Society's members, business partners and relevant community organisations. In doing so, the West Brom aims to exert a positive corporate influence in ways that benefit local people while enhancing its ethical standing as the largest regional building society within the Black Country and Birmingham.

Environmental matters

In light of its status as the largest building society within the region, the West Brom is conscious of its environmental responsibilities. With this in mind, the Society takes active steps to minimise any harmful effects to the environment by assessing its carbon footprint and limiting unnecessary waste and energy.

In pursuing and promoting initiatives that encapsulate its environmental aspirations, the Society has developed or adopted practices. These can be illustrated in several key areas:

- When it comes to waste management, the Society has the strategic aim of achieving zero waste to landfill. Accordingly, it has appointed a designated company with the capability of enabling the Society to attain this ambitious target. This will apply to the branch network as well as the Society's Head Office. Furthermore, the Society continues to identify all relevant waste streams, as in food, paper, furniture, electrical items to ensure a more efficient use of resources, as well as diminishing any excessive commodity usage;
- The Society's environmental and energy plans will be significantly enhanced by the move to a new head office, which is scheduled for Spring 2015. A major consideration is the Society's desire to achieve a high BREAM rating, the world's leading design and assessment method for sustainable buildings. Alongside this, the Society is also looking towards a 'good' Energy Performance Certificate (EPC), an aspiration that will certainly be aided by the design of the new building and its proposed heating and ventilating systems. It is also envisaged that the better monitoring of systems via a Building Management System (BMS) will similarly go towards attaining greater energy efficiency;
- In addition, the West Brom's engagement with the local authority and travel agencies is a tangible indication of the Society's determination to play its part in reducing carbon emissions, as well as encouraging staff in regard to healthier lifestyles; and

- The Society's procurement policy and practice obliges it to review the ethical and environmental policies and performance of potential suppliers so that they are in line with the West Brom's criteria on such issues. That entails exploring the supply chain and lifecycle of products and services. Within this remit, the Society also concerns itself with making sure, as far as possible, that present and prospective suppliers conform with nationally and internationally agreed accords and labour laws in respecting the rights of employees on working conditions and pay.

Social and community impact
The Society is proud of its strategic commitment to improving the lives of people facing genuine difficulty and disadvantage, an ideal that is mainly manifested through:

- *The provision of financial aid to local community and charitable groups that share the Society's goal of alleviating social disadvantage and hardship experienced by people within the region.*

  This is underpinned by the Society's affinity partnership with the Diocese of Lichfield (embodied through the Mercian Community Trust) which is a funding source for many of the Society's contributions to local charities.

  A prevalent element in this is the Society's Community Counts campaign where financial support is directed through the West Brom's branch network, targeting social need at a real grassroots level. Nearly 100 different groups have benefited as a result, encompassing a wide array of concerns and issues such as health, disability, mental illness, dementia, homelessness, educational attainment, and domestic violence.

  The success of the campaign has been recognised in the Society's commendation by Mortgage Finance Gazette in the Community Services category for large lenders.

  The Society has a number of other affinity relationships linked largely to organisations where the emphasis is on the use of imaginative educational, recreational and sporting activities for children and young people. Chief among these are longstanding relationships with the likes of West Bromwich Albion, Walsall Football Club, and Warwickshire County Cricket Club, and Severn Valley Railway while the Society's popular Red Balloon Account supports the internationally respected facilities and developments at Birmingham Children's Hospital.

- *Staff initiatives in raising funds for charitable causes, notably the Society's chosen charity of the year.*

  The generosity and goodwill of staff is very much focused on its energetic fundraising efforts for the Society's chosen charity for the year. Over the past twelve months, through a whole assortment of imaginative ventures, staff have raised over £25,000 for Marie Curie Cancer Care and the tremendous work it does in providing sensitive and specialist end-of-life care for people with terminal illness.

- *Encouraging staff to participate in the Society's volunteering programme on behalf of community organisations that are working to benefit the lives of individuals in difficulty.*

  The Society acknowledges the enormous advantages that arise from its volunteering policy which gives staff the opportunity to take time out to assist local community organisations. The charities themselves are clearly grateful for the endeavours of staff, who also find it wonderfully worthwhile in terms of their own personal development, morale and social awareness.

  For instance, several staff took part in the annual ward decorating challenge at Birmingham Children's Hospital, consolidating the existing affinity connection. A further illustration was that of staff deploying their specialist financial skills and knowledge in the Get on Track project at the regional YMCA for 16-25 year olds, an initiative devoted to the financial enfranchisement and budgeting needs of unemployed young adults.

Employee diversity
The West Brom is located in one of the most ethnically diverse regions in the country, a feature reflected in the composition of the staff profile with almost a quarter (24%) drawn from ethnic minority communities. This representation is invaluable in those branches serving a mixed ethnic population, particularly where English is not necessarily the first language of many customers.

The Society has a staff directory that lists a broad spread of language skills, extending from a rudimentary level to those individuals who are fluent in a language other than English, for example Punjabi, Urdu, Polish or Chinese. In addition, in liaison with Sandwell Deaf Association, the Society has offered staff a basic course in British Sign Language (BSL) which allows for a more sensitive and welcoming service for people with a hearing impairment.

With a total staff number of 745, female colleagues amount to 453, some 61% of the overall figure. 51% of branch managers are female and, at a senior managerial level, the proportion is 44 male managers to 9 female managers (17%). At May 2014, there is one female Board member and seven male Directors. Here again, the Society works to recruit people of the highest calibre, irrespective of gender while conscious of the importance of creating opportunities and reducing barriers to a more equal distribution of staff.

Taxation
The statutory reported tax charge for the year is £1.1m (2012/13: credit of £4.4m). This represents an effective tax rate of 52% (2012/13 restated: 48%), which is higher than the statutory rate in the UK of 23% (2012/13: 24%). The higher rate is due principally to the effect on deferred tax of the forthcoming change in the UK corporation tax rate from 23% to 20%.

Corporation tax rate change
A reduction in the UK corporation tax rate from 23% (effective from 1 April 2013) to 20% (effective from 1 April 2015) resulted in a £2.7m write-down of the Group's deferred tax asset through the Income Statement.

Total tax contribution
During 2013/14 the Group incurred taxes of £5.1m (2012/13: £4.1m) including £3.0m (2012/13: £2.0m) of irrecoverable VAT, which represents a cost to the Group charged to profit before tax as part of administrative expenses and depreciation.

Year to 31 March	2014 £m	2013 £m
Taxes		
Indirect taxes (irrecoverable VAT)	**3.0**	2.0
Employment taxes (Employer's NI)	**2.1**	2.1
Total	**5.1**	4.1

In addition, the Group collected and remitted on behalf of HM Revenue & Customs a further £19.7m (2012/13: £25.3m).

Year to 31 March	2014 £m	2013 £m
Taxes collected and remitted		
Taxes withheld at source (on savings accounts)	**11.9**	19.4
Payroll taxes (PAYE and Employees' NI)	**7.7**	5.8
Indirect taxes (Insurance Premium Tax and VAT)	**0.1**	0.1
Total	**19.7**	25.3

Principal risks and uncertainties

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

The separate Risk Management Report on pages 21 to 24 identifies the principal risks and uncertainties faced by the Society and describes, in detail, the West Brom's approach to risk management.

Outlook for 2014/15

Earlier sections of the Strategic Report describe how changes in economic conditions might impact the Society and the wider bank and building society sector.

As the UK economy steadily recovers, the West Brom faces an exciting period of growth. Residential lending is set to increase with the Society enabling more members to fulfil their home ownership ambitions, while remaining true to the principles of responsible lending and prudent capital and liquidity management.

Despite uncertainties over the long-term sustainability of UK economic growth and the continued challenge of managing legacy issues, we are confident that the Society has sufficient financial resources to withstand a level of reversal in the domestic recovery and to fulfil its development plans.

The Society has developed its systems and processes to adapt to new regulations including, but not limited to, the Mortgage Market Review – which prescribes a mortgage market that works better for consumers – and CRD IV which implements revised standards on liquidity and capital adequacy.

The profit for the year and continued improvements to our capital position affirm the validity of our strategic vision. In the coming year, we will continue to invest in process efficiencies, lending capabilities and the new Head Office, ensuring we offer members the quality products they need and the outstanding service they deserve.

Mark Gibbard
Group Finance Director
28 May 2014

Risk Management

Overview

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

Risk management framework

The Society's activities are governed by its constitution, principles and values. The Directors have also agreed a set of statements which describe the Board's risk appetite in terms of a number of key risk categories: business, capital, liquidity, credit, market, operational, pension liability and conduct (the Society's Risk Appetite Statements).

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

The final element of the framework is the formal structure for managing risk across the Group. This is based on the '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 Committee

Governance structure

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

Risk Committee (RC) – This Committee is chaired by a Non-Executive Director and is responsible for the oversight and management of the key strategic risks identified by the Board.

Assets & Liabilities Committee (ALCo) – This Committee is chaired by the Group Finance Director and is responsible for the assessment of exposure to Treasury counterparty credit, market, liquidity and interest rate risk.

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

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

Operational Risk Committee (ORC) – This Committee is chaired by the Chief Risk Officer and is responsible for the oversight of the management of operational risks arising from the Society's business activities.

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

Retail Conduct Risk Committee (RCRC) – This Committee is chaired by the Chief Executive and is responsible for reviewing and monitoring all retail conduct related matters.

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

Risk categories

The Board has identified eight material risk categories, which together define its overall risk universe. These are defined below:

Business risk

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

Credit risk

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

Capital risk

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

Liquidity risk

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

Market risk

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

Operational risk

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

Retail conduct risk

The risk that inappropriate behaviours by the Society result in adverse outcomes to retail consumers.

Pension liability risk

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

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

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

Business conditions and the economic environment

The environment in 2013 started to show signs of improvement and increased growth expectations for the Organisation for Economic Co-operation and Development (OECD) economies, driven by returning confidence. In the UK, the Bank of England maintained interest rates at an historically low level and maintained the policy of quantitative easing to inject money into the economy. The Funding for Lending Scheme, which provides lenders access to liquid assets with the rate of interest dependent on the level of net lending undertaken, proved to be a catalyst in driving down the cost of retail mortgages. This, aligned to the government's launch of the Help to Buy schemes, increased consumer confidence and has helped to stimulate the housing market.

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

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

Day-to-day management of key risks

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

Governance and oversight is provided through a number of management and executive committees as detailed on page 21.

Credit risk

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

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

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

Additionally, credit risk can arise within treasury transactions (used to meet liquidity requirements and those hedging instruments used for interest rate risk purposes). This type of credit risk is managed by the Treasury Middle Office team. On a daily basis, this team monitors exposures to counterparties and countries, and ensures operations remain within Board approved limits. ALCo and the Board review the Treasury Policy and limits, with reports presented to ALCo on a monthly basis confirming compliance with such policy limits.

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

Market risk

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

ALCo reviews the Treasury Policy, recommending changes to the Board as appropriate, and ensures that regular reports on all aspects of market risk are assessed and reported to the Board. The principal market risk is interest rate risk, which arises as a result of differences in the timing of interest rate re-pricing of assets and liabilities. To mitigate this, Treasury uses natural balance sheet hedging (e.g. matching 2 year fixed rate mortgages with 2 year fixed rate saving bonds) and derivative instruments. The use of derivatives is only permitted in accordance with the provisions of the Building Societies Act 1986, which focus on their use to reduce risk.

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

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

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

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

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

Liquidity risk

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

Savers' deposits, whilst accessible predominantly on demand, at short notice or for fixed periods, nevertheless tend to remain with the Society for longer periods. A substantial proportion of savers have long established relationships with the Society.

This difference in the nature of borrowers' and savers' relationships causes a structural mismatch between the speed at which the Group can generate cash from its business assets and the demand for funds to meet its liabilities. To mitigate this risk, the Group holds sufficient liquid resources to meet the normal day-to-day operations of the business and, in addition, maintains a buffer of high quality assets which can be converted quickly into cash to cover outflows in severely stressed conditions. Processes are in place to ensure that the quantity, quality and availability of these liquid resources is adequate at all times.

The Board undertakes a detailed review of its liquidity adequacy under the Individual Liquidity Adequacy Assessment (ILAA) process and submits this to the PRA for supervisory review. The ILAA specifies the daily processes that the Society will use to determine the amount of liquidity required to cover its potential cash flow needs under a range of stresses including three PRA standard scenarios 'name-specific', 'market-wide' and 'combined'.

The supervisory review also informs the PRA's view of the amount of 'buffer' or highest quality liquid assets that the Society should hold to meet the three standard regulatory stress scenarios and the maximum allowable gap between maturing wholesale assets and wholesale liabilities (wholesale refinancing gap). It issues Individual Liquidity Guidance (ILG) on these and other liquidity risk matters which the Society must meet. Treasury maintains liquid resources at the greater of the ILG measures or the internal assessment of liquidity adequacy.

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

- The Board has delegated authority for the governance of Liquidity Risk Management to the Assets & Liabilities Committee (ALCo) which meets monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC) which meets weekly. LMC looks at liquidity stresses over a horizon of up to three months and plans cash flows over a rolling 12 month planning period;
- Treasury is responsible for day-to-day management and maintenance of adequate liquid resources under delegated authority from ALCo; and
- The Risk Committee monitors independently the overall liquidity adequacy process, including the activities of ALCo, LMC and Treasury.

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

Capital risk

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

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

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

Operational risk

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

Retail conduct risk

The regulatory focus on retail conduct risk has increased with the separation of the Financial Services Authority into the Prudential Regulation Authority and Financial Conduct Authority. The Society has formally mirrored this separation by recognising a specific risk category – retail conduct risk. The Retail Conduct Risk Committee, chaired by the Society's Chief Executive, continues to monitor the Society's conduct culture and provides output to the Board and Risk Committee.

Principal risks and uncertainties

Set out in the table overleaf are the key external threats which have been identified by the Risk Committee.

Risk Category	Key External Threats	Society Response and Mitigants
Business risk	Continuation of ultra low interest rates leading to continuing strain on margins or adverse changes to the operating environment: • Demand for retail funds. • House price movements. • Low or flat economic growth. • Increasing regulatory costs.	Business plans continue to model the impact of a range of scenarios. Income projections are reviewed regularly to identify mitigation actions.
Credit risk	Higher unemployment and/or an increase in Bank Rate (leading to increased arrears and losses).	The Society's provisioning and stress testing models assume a range of unemployment levels. Should an increase occur, the Society would expand its credit management resource.
	Reduction in property prices (leading to a higher incidence of voluntary possessions).	The Society is committed to work with its borrowers to avoid possession wherever possible. In the event that possessions were to increase the Society has provided prudently and regularly reviews its impairment provisions.
	Low or flat economic growth (leading to further tenant failures).	The Society has a well-resourced and highly experienced team dealing with commercial property mortgages and, as has been the case throughout 2013/14, works with borrowers to lessen the impact.
Capital risk	Rules for calculating capital (amount required and/or amount held) are changed.	Maintain regular dialogue with the Regulator and ensure full understanding of the relevant rules.
Liquidity risk	Intensification of competition for retail funding.	The Society continues to attract new retail savers despite intense competition.
Market risk	Residential tracker mortgage assets whose rate is linked to Bank Rate with no floor.	All new residential tracker mortgages subject to a minimum rate.
	Falling HPI, leading to a reduction in the book value of West Bromwich Homes Limited properties.	No new homes are being added to the portfolio and active steps are being taken to reduce the Society's exposure.
Operational risk	Insurance arrangements do not sufficiently cover an event (requiring the Society to pick up the cost).	The annual review of insurance arrangements is based on advice from brokers and an annual benchmarking exercise.
	A significant business continuity event.	Detailed business plans are in place, which are regularly tested.
Pension liability risk	Increased longevity and/or poor investment returns (requiring the Society to contribute more to the scheme).	The defined benefit scheme is closed to new members and existing members are no longer accruing service benefits. The Trustees take extensive advice (actuarial, investment etc.) to minimise the impact of the risks identified.
Retail conduct risk	Actions of third party suppliers leading to adverse customer outcomes.	A robust supplier framework is in place to oversee the activities of key suppliers.

Richard Sommers
Chairman of Risk Committee
28 May 2014

Board of Directors

Mark Gibbard BSc, FCA, MCT

Group Finance Director Age 52

Mark was appointed to the Board in February 2011 as Group Finance Director. He has worked in the financial services sector for more than 25 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 Risk Committee.

Claire Hafner MA, ACA

Non-Executive Director Age 54

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

Mark Nicholls MA (Cantab), MBA

Chairman Age 65

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

Mark Preston BA (Hons), ACIB

Non-Executive Director Age 54

Mark was appointed to the Board in May 2011. He is Chief Executive of City Index Group and a member of the Investment Committee of Guardian Financial Services. Mark has been involved in financial markets for nearly 30 years, including the roles of Chief Executive Officer for the Products and Markets Division of Lloyds TSB and Co-Head of the Bank's Corporate Markets. He chairs the Development Council of Opportunity International UK, a charity active in microfinance activities in Africa. Mark is a member of the Risk Committee.

Martin Ritchley FCA, FCIB, Hon DBA (Coventry)

Deputy Chairman and Senior Independent Director Age 67

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

Richard Sommers MA (Oxon), ACIB

Non-Executive Director Age 57

Richard was appointed to the Board in October 2009. Currently Treasurer of Lady Margaret Hall, a college in the University of Oxford, Richard has in-depth experience of 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 chairs the Risk Committee and is a member of the Audit and Nominations Committees.

Colin Walklin BSc, FCA

Non-Executive Director Age 60

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

Jonathan Westhoff BA (Hons) Financial Services, FCMA, CGMA, ACIB

Chief Executive Age 49

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

Directors' Report

The Directors are pleased to present their Annual Report, together with the audited Accounts, for the financial year ended 31 March 2014.

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 Strategic Report on pages 6 to 20.

Key performance indicators

The Board measures performance against its strategic aims by reference to a number of key performance indicators which are described in the Strategic Report on pages 6 to 20.

Profit and capital

The Group's profit before tax (on continuing operations) amounted to £2.1m (2012/13 restated: loss of £9.1m). The total profit after tax transferred to reserves was £1.0m (2012/13 restated: loss of £4.7m).

The total Group reserves at 31 March 2014 were £242.9m (2012/13 restated: £251.3m) after taking into account a revaluation reserve of £3.4m (2012/13: £3.7m), a cash flow hedging reserve of £0.2m (2012/13: £nil) and an available for sale reserve of £4.4m (2012/13: £9.4m).

Gross capital at 31 March 2014 was £492.5m (2012/13 restated: £500.6m) including £174.7m of profit participating deferred shares (2012/13 restated: £174.4m) and £74.9m (2012/13: £74.9m) of subscribed capital.

The main Group ratios were as follows: gross capital ratio; 11.01% (2012/13 restated: 9.53%), free capital ratio; 8.18% (2012/13 restated: 7.21%) and liquidity ratio; 17.15% (2012/13: 19.77%). For further details see page 105.

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

Risk management

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

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

The principal risks inherent to our business and details of how these risks are managed are set out in the Risk Management Report on pages 21 to 24.

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

Financial risk management objectives and policies

The Board's objective is to minimise the impact of financial risk upon the Society's performance. Financial risks faced by the Society include interest rate, credit, liquidity and currency risks. The Board manages these risks through a risk management framework, Board policies and its Treasury and Credit Risk functions. Governance and oversight is provided through the Risk and Assets & Liabilities Committees. Details of the Society's financial instruments, hedging activity and risk mitigation can be found in note 13 and notes 33 to 36 to the Accounts.

Mortgage arrears

At 31 March 2014 there were 118 (2012/13: 143) 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 £85.3m (2012/13: £72.2m), representing 1.83% (2012/13: 1.47%) of mortgage balances, and the amount of arrears was £11.1m (2012/13: £6.8m). Appropriate provisions were made for potential losses on mortgages in accordance with the provisioning policy set out in note 1 to the Accounts.

Directors

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

John Ainley (resigned 17 May 2014)
Mark Gibbard*
Claire Hafner
Andrew Jones* (resigned 31 March 2014)
Mark Nicholls (Chairman)
Mark Preston
Martin Ritchley
Richard Sommers
Colin Walklin
Jonathan Westhoff*

* Executive Directors.

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

Supplier payment policy

The Society's policy is to agree the terms of payment before trading with the supplier and to pay in accordance with its contractual and other legal obligations. At 31 March 2014, the creditor days figure was 28 days (2012/13: 20 days). This conforms with the aim of paying creditors promptly.

Charitable donations

During the year the Society donated £3,500 (2012/13: £5,000) to a local charitable organisation. The Society also raised significant sums through its community programme, affinity accounts and voluntary staff initiatives. These are outlined on page 19 of the Strategic Report.

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

Employees

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

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

Health and safety

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

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

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

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

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

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

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

The Building Societies Act (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that law they are required to prepare the Group Annual Accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the Society Annual Accounts on the same basis.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the Annual Accounts on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

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

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

Directors' statement pursuant to the Disclosure and Transparency Rules

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

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group and Society; and
- the management report contained in the Strategic Report 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 rules made by the Financial Services Authority under the Financial Services and Markets Act 2000. The rules are now regulated by the Prudential Regulation Authority under the Financial Services Act 2012.

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

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

Directors' responsibilities in respect of going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review on pages 3 to 5 and the Startegic Report on pages 6 to 20. The financial position of the Group, its capital structure and risk management and control processes for managing exposure to credit, market, liquidity and operational risk are described in the Strategic Report on pages 6 to 20 and the Risk Management Report on pages 21 to 24.

In addition, notes 34 to 36 to the Accounts include further information on the Group's objectives, policies and processes for managing its exposure to liquidity, credit and interest rate risk, details of its financial instruments and hedging activities.

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

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

Following a review of their corporate structure, our auditor, KPMG Audit Plc, has instigated an orderly wind down of business, with future audit work being undertaken by KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution for their appointment will be proposed to the forthcoming Annual General Meeting of the Society. There is no difference in liability terms between KPMG Audit Plc and KPMG LLP.

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
28 May 2014

Directors' Report on Corporate Governance

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

Corporate governance – a brief history and recent developments

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

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

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

While there is no statutory requirement for the Society to comply with the 2012 Code, the Society's governance arrangements have been developed with regard to it. This Report details the Society's approach to corporate governance and, where different to the Code, explains why that is the case.

The Code's Main Principles	What the Society does to meet the Principles
A1 The Role of the Board Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.	The principal functions of the Society's Board include: • Providing entrepreneurial leadership; • Setting the Society's strategic aims and risk appetite; • Implementing and maintaining a framework of prudent and effective controls, which enables risk to be assessed and managed; • Ensuring the necessary financial and human resources are in place for the Society to meet its objectives; and • Reviewing management performance. The Board meets as often as is necessary to fulfil its responsibilities. During the last financial year the Board met on 11 occasions. Details of Director attendance at Board and Committee meetings can be found in the table at the end of this Report. The minutes of Board and Committee meetings record all material discussion and challenge and are circulated to all Directors. The Chair of each Committee reports to the subsequent Board meeting the key matters discussed. A schedule of matters reserved to the Board is maintained and kept under regular review. The Board is supported by a number of Committees each with Board approved terms of reference. Details of the membership of those Committees and their key activities are reported elsewhere in this Report and Accounts. The Society has arranged appropriate insurance cover in respect of legal action against its Directors.
A2 Division of Responsibilities There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	The positions of Chairman and Chief Executive are held by different people. The role of the Chairman includes establishing and developing an effective Board to provide support and constructive challenge to the management team. Further details of the Chairman's main responsibilities are set out in the commentary relating to Code Principle A3. The Chief Executive has overall responsibility for managing the Society and implementing Board agreed strategy.
A3 Chairman The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	The main responsibilities of the Chairman are: • Establish and develop an effective Board, including succession planning, recruitment and appraisal of Non-Executive Directors (NEDs); • Lead the Board as a team; • Ensure that the Board has agreed clear values and 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; • Ensure there are appropriate arrangements for the evaluation and remuneration of senior executives; • Act as an accountability focus for the Society, including chairing the Annual General Meeting; • Represent the Society with Regulators and ensure that there is an open and trustworthy relationship; and • Ensure that the Board and its Committees periodically evaluate their own performance. The Board has satisfied itself that both at the time of his appointment, and currently, the Chairman is independent in character and judgment and meets the independence criteria set out in the Code.

The Code's Main Principles	What the Society does to meet the Principles
A4 Non-Executive Directors As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	NEDs are involved in all key decisions and receive detailed management information and reports to ensure they have a firm grasp of the Society's business and external operating environment. NEDs are responsible for all appointment, termination and remuneration decisions relating to the Society's Executive Directors. Martin Ritchley has been appointed as the Board's Senior Independent Director (he is also Deputy Chairman). As Senior Independent Director he leads the annual review of the Chairman's performance. The NEDs meet formally and informally without Executive Directors present.
B1 The Composition of the Board The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.	Board and Committee composition is kept under regular review by the Chairman and the Nominations Committee, to ensure that it is of appropriate size, mix of Executive and Non-Executive Directors and has the right skills and experience to oversee the Society's business activities. The Board believes that all NEDs should meet the Code's independence criteria on appointment and throughout their term of office and has determined that each of the current Directors is independent in character and judgment and that there are no potential conflicts of interest which would affect their judgment.
B2 Appointments to the Board There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	During the course of the last financial year, no new appointments were made to the Board. The Board has considered the proposed changes to the Code relating to diversity. This has arisen as a result of the Davies Report entitled 'Women on Boards'. The Board agreed that diversity contributed positively to the quality of Board performance and agreed that this should be a factor in recruitment decisions, with the key focus that appointments be made on merit. The Board has decided to keep under review the setting of measurable objectives. Currently, at May 2014, the percentages of females on the Board and senior management team are 12.5% and 17% respectively. The terms of reference of the Nominations Committee, which is made up of NEDs, are available on request from the Group Secretary.
B3 Commitment All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	The standard letter of appointment for NEDs sets out the expected time commitment and explains what is required if there is any material change to their commitments.
B4 Development All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	The Society has a range of induction activities and material for NED appointments which is tailored to their individual experience. These include site visits, meetings with senior management and reports/information concerning the Group's operations. Internally organised events on topics of particular relevance to the Society are used to aid development. NEDs are also encouraged to attend appropriate externally organised events. A development log records relevant development activities undertaken by individual Directors.
B5 Information and Support The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.	Board papers, including a management information pack are issued to Directors prior to Board meetings. Board agendas are agreed in advance of each meeting and focus on strategic matters, as well as ensuring that Directors are kept informed of key business activities and regulatory developments. Minutes of Board Committee meetings held since the last Board meeting are included in the papers. Where appropriate, papers are presented by the relevant member of the management team. The Board and its Committees are served by the Group Secretary who advises on governance matters and procedures. Directors have access to independent professional advice should that be required.
B6 Evaluation The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	The most recent formal evaluation of Board and individual Director performance concluded in the early part of the 2013/14 financial year. The evaluations were initiated by a questionnaire and were reviewed by the Chairman and the general output discussed with the whole Board. Specific points were fed back to individual Directors by the Chairman. Evaluation of the Chairman was led by the Deputy Chairman and took the form of a questionnaire completed by all Directors other than the Chairman and a meeting to review the responses. The conclusions were shared with the Chairman. The questionnaires also sought feedback from Committee members, evaluating the performance of the four Board Committees.
B7 Re-election All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	All new Directors are required by the Society's Rules to stand for election at the first Annual General Meeting following their appointment to the Board. The Code's Main Principle relating to re-election of Directors requires that they be submitted for re-election at regular intervals. One of the Supporting Provisions is that all Directors of FTSE 350 companies should be subject to annual election. Although the Society is not a FTSE 350 company, the Board would normally adopt Code Provisions which apply to such firms. Having carefully reviewed the Provision, the Board has concluded that, although very unlikely, there could be circumstances where requiring all Directors to stand for election could have an adverse outcome for the stability of the Society and that this would not be in the best interests of members. The Society's Rules require that those Directors who are due for election or who have not been re-elected in the last three years must stand for election/re-election. All of the Directors were re-elected in 2012 or 2013 and are therefore not required by the Rules to stand for re-election in 2014. However, recognising the new Code Provision, the Board believes that it would be appropriate to bring forward the re-election (as permitted by the Rules) of four Directors so that half of the Board is standing for re-election in 2014. The Board has agreed to keep the arrangements under review and will explain any variation to the Code in future Corporate Governance Reports.

The Code's Main Principles	What the Society does to meet the Principles
C1 Financial and Business Reporting The board should present a balanced and understandable assessment of the company's position and prospects.	The Directors' Report on pages 26 to 28 includes statements detailing the Directors' responsibilities. The Chief Executive's Review on pages 3 to 5, the Strategic Report on pages 6 to 20 and the Risk Management Report on pages 21 to 24, give an extensive report on the Society's performance, financial position and the key risks that will impact performance and risk management going forward.
C2 Risk Management and Internal Control The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.	The Society's Board is responsible for the development of strategies relating to risk management and internal control. Operational responsibility rests with the Executive Directors and senior managers. The risk management systems and internal controls are designed to allow the Society to achieve its corporate objectives in a controlled manner and remain within defined risk appetite statements. These systems and controls are designed to manage rather than eliminate risk. The Board reviews the effectiveness of the risk management systems and internal controls in a number of ways, including: • Board review and approval of Risk Appetite Statements at least annually, with monthly reporting relating to those statements; • A formal committee structure, including an Audit Committee (see below for more detail) and a Risk Committee. The minutes of the meetings of these Committees are reviewed by the full Board, the relevant Committee Chairman highlighting any key issues; • Regular reports and presentations to the Board by the Executive Directors; and • Monthly Board report on key business performance. The Society's Internal Audit function, with a dual reporting line to the Chief Executive and Chair of Audit Committee, provides independent assurance regarding the adequacy and effectiveness of internal controls across all Group activities.
C3 Audit Committee and Auditors The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.	The Board has an Audit Committee comprising four NEDs, all of whom are considered independent according to the criteria contained in the Code. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The Chairman of the Audit Committee receives additional fees in recognition of his added responsibilities. The terms of reference of the Committee are available from the Group Secretary on request. The Society has a policy on the engagement of external auditors to supply non-audit services, which is operated across the Group and in tandem with the external auditor's own internal policy on providing non-audit services. The Society has a well established Whistleblowing Policy to enable staff to raise concerns in confidence about possible improprieties in matters of financial reporting or other issues. This policy has taken account of the Public Interest Disclosure Act 1998. During the year, the Committee received a report summarising all of the reports made under this Policy. There have been four meetings of the Committee during the financial year 2013/14. Executive Directors and other members of senior management (by invitation only) attended the meetings. Those employees who regularly attend include the Chief Executive, Group Finance Director, Chief Risk Officer and Head of Internal Audit. The Board receives regular reports on Committee meetings and also receives copies of the minutes of these meetings. During the last financial year, the Audit Committee: • Validated the integrity of the Group's financial statements (including formal announcements relating to such statements); • Reviewed and approved significant financial reporting issues and accounting policies/issues; • Reviewed the Group's internal controls; • Monitored and reviewed the effectiveness of the Group's Internal Audit function; • Recommended the appointment of the external auditor (following a review of the external auditor's independence and objectivity and the effectiveness of the audit process), the remuneration and terms of engagement; • Confirmed that the Internal Audit function was appropriately resourced; and • Met privately with the Head of Internal Audit and the external auditor.

The Code's Main Principles	What the Society does to meet the Principles
D1 Level and Components of Remuneration Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. **D2 Procedure** There should be formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	The Board has established a Remuneration Committee, comprising four NEDs, which considers and makes recommendations to the Board on key remuneration decisions relating to Society staff who have been identified in the FCA's Remuneration Code as Code Staff. The Directors' Remuneration Report on pages 36 to 41 explains how the Society, through the Remuneration Committee and Board, approaches the remuneration of Directors and other executives. The Society is subject to the FCA's Remuneration Code, requiring the Society to have a remuneration policy which promotes effective risk management, supports business strategy, objectives and values and is in the long-term interests of the Society. During the last financial year, the Remuneration Committee: • Reviewed the Society's Remuneration Policy; • Recommended to the Board the Performance-Related Pay Scheme and awards under that Scheme; • Reviewed employee benefits arrangements; • Made recommendations to the Board in respect of the annual salary review; • Reviewed the employee benefits package and sales incentive schemes; and • Reviewed the terms of appointment and benefits of Code Staff.
E1 Dialogue with Stakeholders There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility of ensuring that a satisfactory dialogue with shareholders takes place.	As a mutual, the Society is owned by its members; the Society seeks feedback from members in a number of ways, including: • Regular Members' ViewPoint events held around the branch network; • Assessing enquiries from the Society's contact centre and website; • Analysing the quantity and nature of customer complaints; • Customer research on specific topics; and • Customer satisfaction surveys and Mystery Shopper programme.
E2 Constructive Use of the AGM The board should use the AGM to communicate with investors and to encourage their participation.	All members who are eligible to vote are sent a Summary Financial Statement and details of the Annual General Meeting (AGM) at least 21 days before the date of the meeting. Proxy forms are also included in the AGM mailing to allow those members who do not attend the meeting to cast their vote. Members are also able to submit their proxy form electronically. The Society uses independent scrutineers to count proxy votes received through the post and via the internet. All Board members are expected to be present at the AGM each year (except in the case of unavoidable absence). The Chairmen of the Audit, Remuneration, Risk and Nominations Committees are available to answer questions at the AGM.

Meetings of the Nominations Committee

The Nominations Committee which is chaired by the Society's Chairman, met on 3 occasions in the last financial year. The key matters considered by the Committee were:

- Membership of Board committees;
- Board performance evaluation arrangements;
- Content of the Board Procedures Manual;
- 2014 AGM election of Directors;
- NEDs reaching the end of their three year term of office; and
- NED development.

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

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

Attendance Records – Board and Board Committee Meetings

	Board	Nominations	Audit	Risk	Remuneration
Mark Nicholls	11 (11)	3 (3)			5 (5)
John Ainley	11 (11)	2 (3)			5 (5)
Mark Gibbard	11 (11)			8 (8)	
Claire Hafner	11 (11)		4 (4)		5 (5)
Andrew Jones	10 (11)			7 (8)	
Mark Preston	11 (11)			7 (8)	
Martin Ritchley	10 (11)	3 (3)	4 (4)	8 (8)	5 (5)
Richard Sommers	11 (11)	3 (3)	4 (4)	8 (8)	
Colin Walklin	9 (11)		4 (4)	5 (8)	
Jonathan Westhoff	11 (11)			8 (8)	

Mark Nicholls
Chairman
28 May 2014

Audit Committee Report

Membership and attendees

The Audit Committee is appointed by the Board and comprises four Non-Executive Directors;

- Colin Walklin (Chairman);
- Claire Hafner;
- Martin Ritchley; and
- Richard Sommers.

The Chairman, Chief Executive, Group Finance Director, Chief Risk Officer, Divisional Director Finance, the external auditor and Head of Internal Audit also attend by invitation.

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

The Committee met four times during the year, with attendance as detailed on page 32. In addition, the Committee met privately with the external auditor and the Head of Internal Audit.

Roles and responsibilities

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

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

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

The minutes of the Audit Committee are distributed to the Board, and the Committee Chairman provides a verbal report to the Board meeting immediately following Committee meetings. A copy of the Audit Committee terms of reference can be obtained from the Group Secretary, on request.

Areas of focus for the Committee in the year

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

a) Financial reporting issues and judgements

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

The Committee also take note of the work of the external auditor, KPMG Audit Plc, to help ensure that suitable accounting policies have been implemented and appropriate judgements have been made by management.

Since the previous year end, there have been no changes in the Group's accounting policies other than the proposed early application of IFRIC 21, 'Levies' and the adoption of four new or amended standards.

The key matters of note that the Committee considered in reviewing the 2013/14 financial statements were:

- Review and confirmation of the approach adopted in calculating the residential and commercial loan loss provisions including an assessment of the appropriateness of the assumptions. The Committee was satisfied with the overall approach and quantum of impairment provisions along with the applicable disclosures included in the Annual Accounts.
- The Group holds derivative financial instruments that it uses to minimise the associated risks that the Society is exposed to, as set out in notes 13 and 35. International Financial Reporting Standards require changes in the fair value of these derivative contracts to be recognised in the Income Statement. In some cases, where strict criteria are met, the impact can be offset by the fair value of the underlying items being hedged. The Committee has performed a detailed review of management's controls and procedures relating to this area and is satisfied that the amounts recognised in the Income Statement are accurate and the disclosures are appropriate.
- During 2013/14 the Society conducted an initial review of its terms and conditions to identify whether its procedures were sufficiently robust to ensure positive customer outcomes. Where customer outcomes were considered to be detrimental, the Society has proposed remedial action and charged a provision to cover the cost of this action. The Committee is satisfied that the remedial action is appropriate and the provision disclosed in note 27 to the Accounts is sufficient to cover any cost to the Society.
- During the year the Society performed an exercise to increase interest rates on certain buy to let loans following an extended period of market disruption. An action group has challenged the decision. The Committee is satisfied that the actions taken by management are legally permitted, appropriate and in the best interests of the membership as a whole. As the legal argument is sufficiently robust, the Committee is satisfied that no provision is required but a contingent liability disclosure is appropriate (see note 27 to the Accounts).
- The Group holds a provision for levies raised by the Financial Services Compensation Scheme (FSCS) to fund the cost of loans from HM Treasury as a consequence of the default of a number of deposit-taking institutions. The International Financial Reporting Interpretations Committee (IFRIC) issued an interpretation of how to account for government levies such as the FSCS levy (IFRIC 21). Along with many other organisations, this interpretation has prompted a change to our accounting policy for the levy and results in a prior year adjustment. The Committee confirms the basis of recalculation of the levy using IFRIC 21 as well as the resultant restatements in the financial statements and the applicable disclosures.
- The Group continues to hold a significant investment property portfolio where it has adopted the fair value model of measurement. The Committee has reviewed and confirmed the appropriateness of the process and assumptions applied in calculating the fair value of the property portfolio at the end of the financial year. It is satisfied that the valuation reflects all assumptions that market participants would use when pricing the investment properties under the current market.
- The Group holds a deferred tax asset on its balance sheet, predominantly arising from losses incurred over the last five years. The recoverability of this asset, therefore, is largely dependent upon future profits. The Committee has reviewed detailed forecasts included with the Group's Medium Term Plan and is confident that the deferred tax asset will be realised in the future.
- The Committee has again reviewed the adoption of the going concern assumption for the interim and year end accounts, adopting the same, thorough approach for both reporting periods. This involves a rigorous consideration of the sufficiency of our current and projected capital and liquidity positions together with the principal risks which could impact these positions. The Committee also reviews the viability of the business model in terms of recurring level of profitability, support from the regulator and ability to continue to trade. Based on this review, the Committee concluded that the adoption of the going concern assumption to prepare the accounts remains appropriate.
- The Committee considered matters raised during the statutory external audit and has concluded that there were no adjustments required which were material to the financial statements.

b) Risk and internal control

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

Further details of actual risk management practices are provided in the Risk Management Report on pages 21 to 24. Through the Committee, the Society's Internal Audit function provide independent assurance to the Board on the effectiveness of the internal control framework. The information received and considered by the Committee during the 2013/14 financial year provided reasonable assurance that there were no material breaches of control and that, overall, the Society maintained an adequate internal control framework that met the principles of the Code.

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

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

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

As part of the external audit process, our external auditor provides us with internal control reports. During the year, KPMG Audit Plc did not highlight any material control weaknesses.

The Committee requires an external 'effectiveness review' of Internal Audit every three years. A review was carried out during the 2013/14 financial year by an external firm appointed by the Committee. In performing their review, information was gathered from a variety of sources including interviews with key business stakeholders, workshops with the Internal Audit team, and a review of key documentation covering all aspects of the Internal Audit function (including file reviews). An external assessment of Internal Audit's readiness to comply with the Chartered Institute of Internal Auditors recommendations on 'Effective Internal Audit in the Financial Services sector', issued in July 2013, was also included.

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

c) External auditor

KPMG Audit Plc, has been the Society's auditor since 1993.

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

Details of the fees paid to the external auditor for audit and non-audit services are set out in note 7 to the Accounts. The Audit Committee has also agreed a policy for the employment, by the Society, of former employees of the external auditor which is designed to further maintain the auditor's independence.

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

Audit Committee effectiveness

The effectiveness of the Committee was assessed by an external firm in July 2013. The scope of this review considered time management and composition, Committee processes and support, the work of the Audit Committee and priorities for the coming year. This review concluded that the Committee operated effectively during the year, being highly rated in each of the areas reviewed.

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

On behalf of the Board

Colin Walklin
Chairman of Audit Committee
28 May 2014

Directors' Remuneration Report

Annual Statement by the Chairman of the Remuneration Committee

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

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

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

This report is presented in two sections:

- The Remuneration Policy – setting out the Remuneration Committee's forward looking policy with regard to pay and benefits. It is the Committee's intention that this Policy will apply with effect from the Annual General Meeting, subject to its approval under an advisory vote by members; and
- The Annual Remuneration Report – detailing the amounts earned by Directors in respect of the financial year ended 31 March 2014 and how the policy will operate for the year ending 31 March 2015.

All eligible members receive a summary of this Report and are entitled to participate in an advisory vote on both the Remuneration Policy and the Annual Remuneration Report at the 2014 Annual General Meeting (AGM). The Society intends to ensure that an advisory vote on the Remuneration Policy takes place every three years, unless there is a policy change, in which case it intends to propose a similar resolution annually.

As outlined in the Chief Executive's Business Review, the Society has had a very successful year and has returned to profit as a direct result of its 'Back to Basics' strategy. Alongside this achievement the Society strengthened its capital position, increased its residential lending and decreased its exposure to riskier commercial lending.

The payments to Executive Directors and the Society's senior managers were reviewed in this context.

No salary increases were awarded to Executive Directors during 2013/14, compared to the general staff population who received a 2.25% increase.

The Executive Director Performance-Related Pay Scheme generated awards of between 38% and 42.5% of salary. These payments reflect the delivery of financial measures, the management of risk, both credit risk and operational risk, customer and people measures.

Deferred performance-related payments in relation to 2011/12 and 2012/13 for Executive Directors have been approved for payment since the end of the 2013/14 financial year.

Remuneration Committee membership and responsibilities

Membership

The members of the Remuneration Committee during the financial year 2013/14 were: John Ainley (Chairman), Mark Nicholls, Martin Ritchley and Claire Hafner. On 17 May 2014 Mr Ainley resigned from the Board and was replaced as Remuneration Committee Chairman by Mr Ritchley.

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

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

Responsibilities

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

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

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

The Committee considered the following matters during the year:

- Determining the pay and benefits of Executive Directors, the Chairman, Code Staff and other senior managers and recommending to the Board for approval;
- Determining the pay and benefits for the general staff population;
- Determining the level of performance-related pay in relation to the 2012/13 financial year and deferral awards due during the year for Code Staff;
- Recommending to the Board the Society and individual performance-related pay objectives for Code Staff in relation to the 2014/15 financial year; and
- Considering the approach to be adopted in respect of disclosure requirements in relation to this report.

The Committee receives an annual report, prepared jointly by the Head of Legal, Compliance and Customer Relations and the Head of Internal Audit. This report provides information on whether any activity or behaviour by any individual has been identified or observed which should affect their eligibility to participate in performance-related pay arrangements.

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

The Terms of Reference for the Committee were last updated in May 2014 to reflect the Code. The Terms of Reference are available on request from the Group Secretary.

Martin Ritchley
Chairman of Remuneration Committee
28 May 2014

Background

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

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

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

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

The Society's remuneration principles are as follows:

- The Policy is in line with the strategy, objectives and values of the Society, thereby aligning it with both short and long-term interests;

- The policies, procedures, remuneration practices and performance-related payment schemes are consistent with the promotion of good and effective risk management and are structured in such a way as to discourage risk taking which is outside the Society's risk appetite;
- All remuneration packages are designed such that the Society can attract and retain high calibre individuals;
- Performance measures for individuals are challenging and robust and measured on a consistent basis; and
- Performance-related pay is performance dependent, an element of which is deferred over a three year period, to allow the Remuneration Committee to review whether the payment remains appropriate, and providing the ability to reduce or cancel the payment.

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

Section 1 – The Remuneration Policy

Remuneration Policy and Practice

Components of remuneration

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

Component	Purpose	Operation	Performance Metrics	Opportunity
Basic Salary	Fixed remuneration set to attract and retain Executives of sufficient calibre through the payment of competitive rates.	Reviewed annually (or more frequently if required).	Influencing factors include: • Role and experience • Personal performance • Benchmarking comparisons • Salary increases awarded across the Society	Set at a level considered appropriate, taking into account the relevant factors tabled. The Committee considers very carefully any pay awards which do not reflect the wider increases across the Society and will only make them where there is a clear commercial rationale for doing so.
Performance-Related Pay	Linked to the delivery of Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives.	40% of the bonus earned (maximum 20% of basic salary) is deferred over a three year period. Deferred payments are made in equal instalments over the following three years, are subject to annual review and recommendation by the Committee and require approval by the Non-Executive members of the Board. The deferred element can be reduced or cancelled by the Non-Executive members of the Board. All awards are non-pensionable.	Based on a number of measures, including: • Financial • Customer • People • Risk • Strategy. Reviewed by the Committee annually to ensure that the measures are appropriate.	Maximum annual opportunity is 50% of basic salary.
Pension or Pension Allowance	A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors are invited to join the Society's stakeholder pension plan or, as an alternative, be provided with a cash allowance.	Not applicable.	A cash allowance of 25% of salary for the Chief Executive and 20% for other Executive Directors in lieu of receiving a pension.
Benefits	A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors receive benefits in line with market practice, which include a fully expensed car, private medical care for themselves and their family, and life assurance. Other benefits may be provided in individual circumstances.	Not applicable.	Set at a level considered appropriate by the Committee.

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

Component	Purpose	Operation	Measure/Factors Considered	Application
Fees	To attract and retain Non-Executive Directors of the right calibre for the Society.	Fees are reviewed annually for Non-Executive Directors by the Chairman and Executive Directors. Fees for the Chairman are recommended by the Remuneration Committee and approved by the Board. The Chairman is not present when his fees are discussed or approved.	Not applicable.	Fees are set at a level to attract individuals with the appropriate knowledge and experience and to reflect the responsibilities and time commitment for Board and Board Committees, taking into account market practice.
Performance-Related Pay, Pension and Other Benefits	Non-Executive Directors are not eligible to receive any performance-related pay, pension or other benefits.		Whilst Non-Executive Directors do not participate in any performance-related pay scheme, their overall performance is reviewed annually by the Chairman.	

Recruitment Policy for Executive Directors

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

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

Component	Application
Salary	A Director would receive an amount commensurate with their experience and responsibilities.
Benefits	A Director would receive comparable benefits to existing Directors, although if required to attract the right candidate these may be widened to include additional benefits, such as a relocation allowance.
Performance-Related Pay	The maximum performance-related award would be in line with current policy, unless the market rate required to recruit the individual supported a higher amount. In any event, this would be no more than what is considered commercially justifiable.
Pension	A Director would have the option to join the Society's stakeholder pension scheme or to receive a cash allowance of up to 25% of salary.
Recruitment Awards	The Society does not anticipate making any 'sign-on' payments. However, this may be considered if the new Director was required to forfeit an arrangement from their previous employer. In such instances the award would be no more in the terms of amount than the award due to be forfeited. The timing and vesting requirements of any payment would be replicated as far as possible.

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

Recruitment of Non-Executive Directors

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

Service contracts

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

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

Policy on payment for loss of office

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

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

Employment conditions elsewhere in the Society

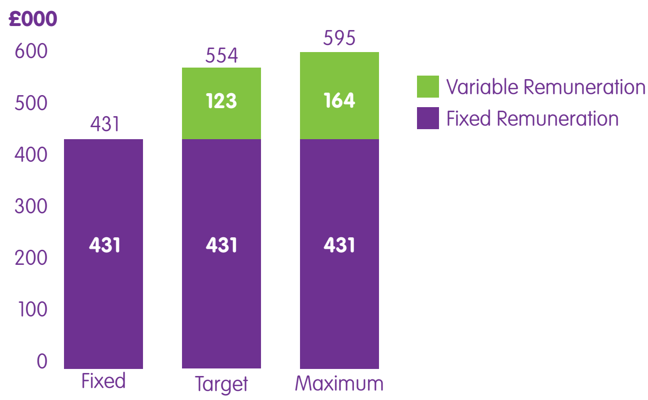
The pay and benefits of the general staff population are considered annually by the Committee, which also determines the amount of general performance-related pay. The Society, subject to eligibility, offers a comprehensive range of benefits to staff, including pension, life assurance, health care and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

Remuneration scenarios

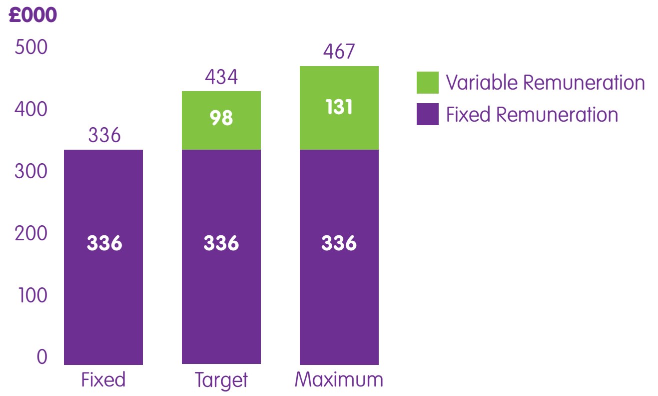
The following charts show the breakdown of the component parts of the remuneration package for Executive Directors on the following basis:

- Fixed Remuneration – comprising of salary and benefits.
- Target Remuneration – the anticipated annual remuneration incorporating a performance-related award.
- Maximum Remuneration – the maximum remuneration that could be awarded.

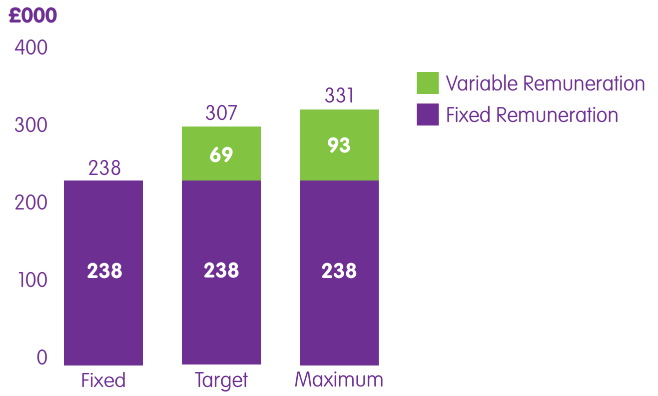
Chief Executive



Group Finance Director



Group Risk Director



When developing the scenarios, the following assumptions were made:

- Fixed remuneration includes salary, pension and benefits only;
- Target remuneration is based on a performance-related award of 37.5% of basic salary; and
- Maximum award is based on a performance-related award of the maximum achievable which is 50% of salary.

Section 2 – Annual Report on Remuneration

Non-Executive Director Fees (Audited)

Non-Executive Director		Date Appointed	Date Appointment Ceased	2013/14 £000	2012/13 £000
Mark Nicholls	Society Chairman	01/01/10		**100**	100
John Ainley	Remuneration Committee Chairman	18/05/11	17/05/14	**55**	55
Claire Hafner		01/09/11		**50**	50
Mark Preston		18/05/11		**50**	50
Martin Ritchley	Deputy Chairman	01/09/09		**70**	70
Richard Sommers	Risk Committee Chairman	01/10/09		**60**	60
Colin Walklin	Audit Committee Chairman	20/07/11		**60**	60
Total				**445**	445

Executive Director Remuneration – 2013/14 (Audited)

Executive Director		Basic Salary £000	Performance-Related Pay (1) £000	Pension £000	Other Benefits £000	Total £000
Jonathan Westhoff	Chief Executive	327	134	82	22	**565**
Mark Gibbard	Group Finance Director	262	111	52	22	**447**
Andrew Jones (2)	Group Risk Director	185	70	37	16	**308**
Total		**774**	**315**	**171**	**60**	**1,320**

Executive Director Remuneration – 2012/13 (Audited)

Executive Director		Basic Salary £000	Performance-Related Pay (1) £000	Pension £000	Other Benefits £000	Total £000
Jonathan Westhoff	Chief Executive	327	98	82	18	525
Mark Gibbard	Group Finance Director	262	86	52	22	422
Andrew Jones	Group Risk Director	185	60	37	16	298
Total		774	244	171	56	1,245

Notes:

1. Included in the amounts shown above is an element that is subject to deferral. The table overleaf headed 'Executive Director Deferred Performance-Related Pay Payable in Future Years' details the amount due for payment, subject to review by the Committee at the appropriate time.
2. In April 2013 Mr Jones informed the Board of his intention to retire on 31 March 2014. Mr Jones therefore left the Society on that date. Mr Jones worked his full notice period. Other than deferred performance-related pay awards which may become payable in future years (as described overleaf) there are no further payments due to him.

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

Executive Director Deferred Performance-Related Pay
Payable in Future Years

		Payable after Year Ending			
Executive Director	**Deferred From**	**2013/14 £000**	**2014/15 £000**	**2015/16 £000**	**2016/17 £000**
Jonathan Westhoff	2011/12	10	10	-	-
	2012/13	13	13	13	-
	2013/14	-	18	18	18
Total		**23**	**41**	**31**	**18**
Mark Gibbard	2011/12	9	9	-	-
	2012/13	12	12	12	-
	2013/14	-	15	15	15
Total		**21**	**36**	**27**	**15**
Andrew Jones	2011/12	8	8	-	-
	2012/13	8	8	8	-
	2013/14	-	9	9	9
Total		**16**	**25**	**17**	**9**

Deferred elements due after the year ending 2013/14 (shown in the table above) have subsequently been approved by the Board for payment.

Statement on member voting at the 2013 AGM

At the 2013 AGM members voted in favour of approving the Directors' Remuneration Report as shown below:

Vote	Votes For	% of Votes	Votes Against	Withheld
To approve the Directors' Remuneration Report	24,501	87.76%	3,417	661

The Remuneration Policy for 2014/15

The Society's approach to Executive Director remuneration for 2014/15 is that the Remuneration Policy will remain substantially unchanged to that set out in this report.

The Remuneration Committee considered the fees of the Society Chairman in light of the responsibilities and the fees paid in the marketplace. It decided to recommend to the Board an increase of £20,000 per annum. The recommendation was accepted by the Board and the increase was applied in April 2014. This is the only increase that the Chairman has received since his appointment in January 2010.

The annual salary review for staff, which provided an increase of 2.25%, was applied from April 2014. Executive Directors did not receive any increase to their salary.

The maximum performance-related pay award for Executive Directors will remain at 50% of salary for 2014/15.

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

Martin Ritchley
Chairman of Remuneration Committee
28 May 2014

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 2014 set out on pages 43 to 104. 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 27 to 28, 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 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 Financial Reporting Council's website at: www.frc.org.uk/auditscopeukprivate.

Opinion on Annual Accounts

In our opinion the Annual Accounts:

- Give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the Group and of the Society as at 31 March 2014 and of the income and expenditure of the Group and of the Society for the year then ended; and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it and, as regards the Group Annual Accounts, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on which we are required to report by exception

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

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

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
28 May 2014

Income Statements

for the year ended 31 March 2014

	Notes	**Group 2014 £m**	Group 2013* £m	**Society 2014 £m**	Society 2013* £m
Interest receivable and similar income	2	**135.9**	161.1	**136.7**	155.4
Interest expense and similar charges	3	**(87.7)**	(127.4)	**(98.3)**	(130.3)
Net interest receivable		**48.2**	33.7	**38.4**	25.1
Fees and commissions receivable		**5.7**	5.6	**4.9**	3.4
Other operating income/(expense)	4	**3.6**	4.3	**(0.4)**	0.5
Total operating income		**57.5**	43.6	**42.9**	29.0
Fair value gains/(losses) on financial instruments	5	**4.6**	(1.7)	**1.6**	1.0
Net realised (losses)/profits	6	**(0.2)**	7.3	**(0.2)**	4.8
Total income		**61.9**	49.2	**44.3**	34.8
Administrative expenses	7	**(40.6)**	(39.3)	**(34.7)**	(32.4)
Depreciation and amortisation	18, 20	**(4.4)**	(5.6)	**(4.4)**	(5.6)
Operating profit/(loss) before impairments, provisions and revaluation gains/(losses)		**16.9**	4.3	**5.2**	(3.2)
Gains/(Losses) on investment properties	19	**5.1**	(0.2)	**-**	-
Impairment on loans and advances	15	**(13.6)**	(10.8)	**0.4**	(1.7)
Provisions for liabilities	27	**(6.3)**	(2.4)	**(5.1)**	(2.4)
Provisions against investments in subsidiary undertakings	16	**-**	-	**(9.9)**	-
Profit/(Loss) before tax		**2.1**	(9.1)	**(9.4)**	(7.3)
Taxation	10	**(1.1)**	4.4	**(1.6)**	2.5
Profit/(Loss) for the financial year		**1.0**	(4.7)	**(11.0)**	(4.8)

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

The notes on pages 50 to 104 form part of these accounts.

* Restated due to a change in accounting policy as described in note 1.

Statements of Comprehensive Income

for the year ended 31 March 2014

	Notes	Group 2014 £m	Group 2013* £m
Profit/(Loss) for the financial year		**1.0**	(4.7)
Other comprehensive income			
Items that may subsequently be reclassifed to profit or loss			
Available for sale investments			
Valuation (loss)/gain taken to equity		**(6.2)**	15.6
Amounts transferred to Income Statement		**0.2**	(4.8)
Gains on revaluation of land and buildings		**0.5**	-
Cash flow hedge gains taken to equity		**0.2**	-
Taxation	31	**1.0**	(2.6)
Items that will not subsequently be reclassifed to profit or loss			
Actuarial loss on retirement benefit obligations	32	**(6.2)**	(1.7)
Taxation	31	**1.4**	0.4
Other comprehensive income for the financial year, net of tax		**(9.1)**	6.9
Total comprehensive income for the financial year		**(8.1)**	2.2

	Notes	Society 2014 £m	Society 2013* £m
Loss for the financial year		**(11.0)**	(4.8)
Other comprehensive income			
Items that may subsequently be reclassifed to profit or loss			
Available for sale investments			
Valuation (loss)/gain taken to equity		**(6.2)**	15.6
Amounts transferred to Income Statement		**0.2**	(4.8)
Gains on revaluation of land and buildings		**0.5**	-
Taxation	31	**1.0**	(2.6)
Items that will not subsequently be reclassifed to profit or loss			
Actuarial loss on retirement benefit obligations	32	**(6.2)**	(1.7)
Taxation	31	**1.4**	0.4
Other comprehensive income for the financial year, net of tax		**(9.3)**	6.9
Total comprehensive income for the financial year		**(20.3)**	2.1

The notes on pages 50 to 104 form part of these accounts.

* Restated due to a change in accounting policy as described in note 1.

Statements of Financial Position

at 31 March 2014

	Notes	Group 2014 £m	Group 2013* £m	Group 2012* £m	Society 2014 £m	Society 2013* £m	Society 2012* £m
Assets							
Cash and balances with the Bank of England	11	**136.3**	392.3	769.2	**136.3**	392.3	769.2
Loans and advances to credit institutions		**169.4**	147.1	117.5	**57.9**	69.7	50.9
Investment securities	12	**461.6**	499.5	924.5	**1,540.5**	1,598.5	2,056.4
Derivative financial instruments	13	**33.8**	29.5	64.5	**33.3**	29.5	81.7
Loans and advances to customers	14	**4,680.5**	4,971.1	5,373.6	**1,733.1**	1,728.4	1,896.3
Current tax assets		**-**	-	-	**-**	0.2	0.2
Deferred tax assets	21	**23.8**	23.2	24.9	**12.2**	11.4	11.4
Trade and other receivables	22	**2.8**	2.8	4.3	**2.0**	2.3	3.6
Investments	16	**-**	-	-	**2,088.5**	2,292.7	2,274.7
Intangible assets	17, 18	**8.7**	7.9	7.5	**8.1**	7.3	6.9
Investment properties	19	**115.2**	112.5	112.7	**-**	-	-
Property, plant and equipment	20	**18.4**	16.5	17.6	**18.4**	16.5	17.6
Retirement benefit assets	32	**-**	0.4	-	**-**	0.4	-
Total assets		**5,650.5**	6,202.8	7,416.3	**5,630.3**	6,149.2	7,168.9
Liabilities							
Shares	23	**4,235.6**	4,652.2	5,672.8	**4,235.6**	4,652.2	5,672.8
Amounts due to credit institutions		**38.7**	28.5	48.6	**38.7**	28.5	48.6
Amounts due to other customers	24	**121.0**	193.0	129.7	**723.1**	485.5	129.7
Derivative financial instruments	13	**62.0**	99.4	107.8	**50.5**	80.4	91.5
Debt securities in issue	25	**677.0**	709.1	927.4	**77.5**	380.8	702.0
Deferred tax liabilities	21	**3.6**	4.3	8.2	**0.5**	0.4	0.5
Trade and other payables	26	**13.6**	12.5	19.9	**12.3**	11.1	15.3
Provisions for liabilities	27	**5.1**	3.2	3.1	**3.9**	3.2	3.1
Retirement benefit obligations	32	**1.4**	-	0.4	**1.4**	-	0.4
Total liabilities		**5,158.0**	5,702.2	6,917.9	**5,143.5**	5,642.1	6,663.9
Equity							
Profit participating deferred shares	29	**174.7**	174.4	175.6	**174.7**	174.4	175.6
Subscribed capital	28	**74.9**	74.9	74.9	**74.9**	74.9	74.9
General reserves		**234.9**	238.2	243.0	**229.4**	244.7	249.6
Revaluation reserve		**3.4**	3.7	3.7	**3.4**	3.7	3.7
Available for sale reserve		**4.4**	9.4	1.2	**4.4**	9.4	1.2
Cash flow hedging reserve		**0.2**	-	-	**-**	-	-
Total equity attributable to members		**492.5**	500.6	498.4	**486.8**	507.1	505.0
Total liabilities and equity		**5,650.5**	6,202.8	7,416.3	**5,630.3**	6,149.2	7,168.9

The accounting policies and notes on pages 50 to 104 form part of these accounts.

* Restated due to a change in accounting policy as described in note 1.

Approved by the Board of Directors on 28 May 2014 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 2014

Group	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2013 (restated)	**174.4**	**74.9**	**238.2**	**3.7**	**9.4**	**-**	**500.6**
Profit for the financial year	0.3	-	0.7	-	-	-	**1.0**
Other comprehensive income for the period							
Available for sale investments: current year movement net of tax	-	-	-	-	(5.0)	-	**(5.0)**
Actuarial loss on retirement benefit obligations	-	-	(4.8)	-	-	-	**(4.8)**
Gain on revaluation of land and buildings	-	-	-	0.5	-	-	**0.5**
Realisation of previous revaluation gains	-	-	0.8	(0.8)	-	-	**-**
Cash flow hedge gains	-	-	-	-	-	0.2	**0.2**
Total other comprehensive income	**-**	**-**	**(4.0)**	**(0.3)**	**(5.0)**	**0.2**	**(9.1)**
Total comprehensive income for the year	**0.3**	**-**	**(3.3)**	**(0.3)**	**(5.0)**	**0.2**	**(8.1)**
At 31 March 2014	**174.7**	**74.9**	**234.9**	**3.4**	**4.4**	**0.2**	**492.5**

for the year ended 31 March 2013

Group	Profit participating deferred shares* £m	Subscribed capital £m	General reserves* £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total* £m
At 1 April 2012 (as reported)	175.0	74.9	241.1	3.7	1.2	-	495.9
Change in accounting policy	0.6	-	1.9	-	-	-	2.5
At 1 April 2012 (restated)	175.6	74.9	243.0	3.7	1.2	-	498.4
Loss for the financial year (restated)	(1.2)	-	(3.5)	-	-	-	(4.7)
Other comprehensive income for the period							
Available for sale investments: current year movement net of tax	-	-	-	-	8.2	-	8.2
Actuarial loss on retirement benefit obligations	-	-	(1.3)	-	-	-	(1.3)
Total other comprehensive income	-	-	(1.3)	-	8.2	-	6.9
Total comprehensive income for the year (restated)	(1.2)	-	(4.8)	-	8.2	-	2.2
At 31 March 2013 (restated)	174.4	74.9	238.2	3.7	9.4	-	500.6

Statements of Changes in Members' Interest

for the year ended 31 March 2014

Society	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Total £m
At 1 April 2013 (restated)	**174.4**	**74.9**	**244.7**	**3.7**	**9.4**	**507.1**
Profit/(Loss) for the financial year	0.3	-	(11.3)	-	-	**(11.0)**
Other comprehensive income for the period						
Available for sale investments: current year movement net of tax	-	-	-	-	(5.0)	**(5.0)**
Actuarial loss on retirement benefit obligations	-	-	(4.8)	-	-	**(4.8)**
Gain on revaluation of land and buildings	-	-	-	0.5	-	**0.5**
Realisation of previous revaluation gains	-	-	0.8	(0.8)	-	**-**
Total other comprehensive income	**-**	**-**	**(4.0)**	**(0.3)**	**(5.0)**	**(9.3)**
Total comprehensive income for the year	**0.3**	**-**	**(15.3)**	**(0.3)**	**(5.0)**	**(20.3)**
At 31 March 2014	**174.7**	**74.9**	**229.4**	**3.4**	**4.4**	**486.8**

for the year ended 31 March 2013

Society	Profit participating deferred shares* £m	Subscribed capital £m	General reserves* £m	Revaluation reserve £m	Available for sale reserve £m	Total* £m
At 1 April 2012 (as reported)	175.0	74.9	247.7	3.7	1.2	502.5
Change in accounting policy	0.6	-	1.9	-	-	2.5
At 1 April 2012 (restated)	175.6	74.9	249.6	3.7	1.2	505.0
Loss for the financial year (restated)	(1.2)	-	(3.6)	-	-	(4.8)
Other comprehensive income for the period						
Available for sale investments: current year movement net of tax	-	-	-	-	8.2	8.2
Actuarial loss on retirement benefit obligations	-	-	(1.3)	-	-	(1.3)
Total other comprehensive income	-	-	(1.3)	-	8.2	6.9
Total comprehensive income for the year (restated)	(1.2)	-	(4.9)	-	8.2	2.1
At 31 March 2013 (restated)	174.4	74.9	244.7	3.7	9.4	507.1

Under the terms of the profit participating deferred shares (PPDS), 25% of the annual post-tax profits or (losses) are allocated against the PPDS reserve.

The notes on pages 50 to 104 form part of these accounts.

* Restated due to a change in accounting policy as described in note 1.

Statements of Cash Flows

for the year ended 31 March 2014

	Group 2014 £m	Group 2013* £m	Society 2014 £m	Society 2013* £m
Net cash outflow from operating activities (overleaf)	**(235.0)**	(566.8)	**(207.1)**	(484.8)
Cash flows from investing activities				
Purchase of investment securities	**(141.8)**	(672.1)	**(182.4)**	(841.8)
Proceeds from disposal of investment securities	**229.3**	870.7	**290.0**	1,073.3
Proceeds from disposal of investment properties	**2.3**	-	**-**	-
Purchase of property, plant and equipment and intangible assets	**(6.2)**	(5.0)	**(6.0)**	(5.0)
Proceeds from disposal of property, plant and equipment	**0.5**	0.2	**0.4**	0.2
New funding to subsidiaries	**-**	-	**(109.1)**	(125.5)
Repayment of funding from subsidiaries	**-**	-	**303.4**	107.5
Net cash flows from investing activities	**84.1**	193.8	**296.3**	208.7
Cash flows from financing activities				
Issue of mortgage backed loan notes	**380.0**	175.0	**-**	-
Repayment of mortgage backed loan notes	**(105.8)**	(67.3)	**-**	-
Net repayment of other debt securities	**(302.3)**	(318.2)	**(302.3)**	(318.2)
Net cash flows from financing activities	**(28.1)**	(210.5)	**(302.3)**	(318.2)
Net decrease in cash	**(179.0)**	(583.5)	**(213.1)**	(594.3)
Cash and cash equivalents at beginning of year	**550.3**	1,133.8	**472.9**	1,067.2
Cash and cash equivalents at end of year	**371.3**	550.3	**259.8**	472.9

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

	Group 2014 £m	Group 2013* £m	Society 2014 £m	Society 2013* £m
Cash in hand (including Bank of England Reserve account)	**128.1**	386.8	**128.1**	386.8
Loans and advances to credit institutions	**169.4**	147.0	**57.9**	69.6
Investment securities	**73.8**	16.5	**73.8**	16.5
	371.3	550.3	**259.8**	472.9

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2014, amounted to £8.2m (2012/13: £5.5m). The movement in these balances is included within cash flows from operating activities.

Statements of Cash Flows (continued)

for the year ended 31 March 2014

	Group 2014 £m	Group 2013* £m	Society 2014 £m	Society 2013* £m
Cash flows from operating activities				
Profit/(Loss) on ordinary activities before tax from continuing activities	**2.1**	(9.1)	**(9.4)**	(7.3)
Movement in prepayments and accrued income	**(0.1)**	0.9	**-**	1.4
Movement in accruals and deferred income	**1.2**	(3.6)	**1.4**	(2.0)
Impairment on loans and advances	**13.6**	10.8	**(0.4)**	1.7
Depreciation and amortisation	**4.4**	5.6	**4.4**	5.6
Revaluations of investment properties	**(5.1)**	0.2	**-**	-
Movement in provisions for liabilities	**1.9**	0.1	**0.7**	0.1
Movement in provisions against investments in subsidiary undertakings	**-**	-	**9.9**	-
Movement in derivative financial instruments	**(41.7)**	26.6	**(33.7)**	41.1
Movement in fair value adjustments	**40.3**	(11.8)	**12.9**	(13.4)
Change in retirement benefit obligations	**(4.4)**	(2.5)	**(4.4)**	(2.5)
Cash flows from operating activities before changes in operating assets and liabilities	**12.2**	17.2	**(18.6)**	24.7
Movement in loans and advances to customers	**237.9**	387.5	**(13.4)**	168.1
Movement in loans and advances to credit institutions	**(2.6)**	1.3	**(2.6)**	1.3
Movement in shares	**(418.9)**	(1,009.5)	**(418.9)**	(1,009.5)
Movement in deposits and other borrowings	**(62.8)**	40.2	**246.8**	332.7
Movement in trade and other receivables	**0.1**	0.5	**0.3**	-
Movement in trade and other payables	**(0.9)**	(4.0)	**(1.1)**	(2.3)
Tax received	**-**	-	**0.4**	0.2
Net cash outflow from operating activities	**(235.0)**	(566.8)	**(207.1)**	(484.8)

The notes on pages 50 to 104 form part of these accounts.

* Restated due to a change in accounting policy as described in note 1.

Notes to the Accounts for the year ended 31 March 2014

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 2014; and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Building Societies Act 1986 applicable to societies reporting under IFRS.

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

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

Going concern

The Directors have prepared forecasts for the Group, including its capital position, for a period in excess of 12 months from the date of approval of these financial statements. The Directors have also considered the effect upon the Group's business, financial position, liquidity and capital of more pessimistic, but plausible, trends in its business using stress testing and scenario analysis techniques. The resultant forecasts and projections show that the Group will be able to operate at adequate levels of both liquidity and capital for the foreseeable future.

The Directors, therefore, consider that the Society and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements. For further details see page 28 of the Directors' Report.

Accounting developments and change in accounting policy

The following new or amended accounting standards and interpretations, which are relevant to the Group, have been adopted during 2013/14:

- Amendments to IAS 1, 'Presentation of Financial Statements' – Presentation of Items of Other Comprehensive Income
  The amendments require separate presentation within the Statements of Comprehensive Income of items that will potentially be reclassified to profit or loss in subsequent periods and items that will never be reclassified to profit or loss.

  The Statements of Comprehensive Income have been updated to meet the requirements of the amended standard with comparative items represented accordingly.

- IAS 19 (revised 2011), 'Employee Benefits'
  The revised standard updates the recognition, presentation and disclosure requirements for retirement benefit plans. For the year ended 31 March 2014, operating income is £0.4m lower than it would have been prior to the adoption of the revised IAS 19. This difference arises on replacing the interest cost on scheme liabilities and expected return on scheme assets with a single interest income on the net retirement benefit asset/(liability), calculated using the discount rate assumption.

  If the revised standard had applied in the prior year, other operating income would have been £0.4m lower at 31 March 2013, with an equivalent increase in other comprehensive income. The comparative figures in the Income Statements and Statements of Comprehensive Income have not been restated for the adoption of IAS 19 (revised 2011) as the impact on the Group and Society's results would be insignificant. There would be no impact on the Group or Society's net assets or reserves as a consequence of retrospectively applying the revised IAS 19.

  The additional disclosure requirements arising on application of the revised IAS 19 are presented in note 32 to the Accounts.

- IFRS 13, 'Fair Value Measurement'
  The new standard defines fair value and provides a single framework for measuring fair value, replacing existing IFRS guidance in this area. The application of IFRS 13 has not had a significant financial impact on these financial statements.

- Amendments to IFRS 7, 'Financial Instruments: Disclosures' – Disclosures – Offsetting Financial Assets and Financial Liabilities
  The amendments require new disclosures for financial instruments which are offset in the Statement of Financial Position. The application of the amendments has had no impact on the financial statements.

- IFRIC 21, 'Levies'
  During May 2013 the IASB issued IFRIC 21, 'Levies' which is effective for periods beginning on or after 1 January 2014 with early adoption permitted. This interpretation considers how and when an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements.

  IFRIC 21 is an interpretation of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'. IAS 37 sets out the criteria for recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of that levy.

  This interpretation has particular importance to the bank and building society sectors in that it clarifies the treatment with regard to the accounting for the management levy charged under the Financial Services Compensation Scheme (FSCS). Consensus application of the IFRIC indicates that the trigger for recognising a provision in respect of the FSCS levy moves from 31 December (the date used in calculating the charge for an individual entity) to the following 1 April (the anniversary date of the initiation of the FSCS scheme).

The Society has applied IFRIC 21 in these 2013/14 financial statements. The implementation constitutes a change in accounting policy and is therefore retrospectively applied. The table below details the restatement of prior period comparatives:

	Notes	Previously published 2013 £m	IFRIC 21 adjustment 2013 £m	Restated 2013 £m
Group				
Income Statement				
Provisions for liabilities	27	(2.7)	0.3	(2.4)
Loss before tax		(9.4)	0.3	(9.1)
Loss for the financial year		(5.0)	0.3	(4.7)
Statement of Financial Position				
Deferred tax assets	21	24.0	(0.8)	23.2
Total assets		6,203.6	(0.8)	6,202.8
Provisions for liabilities	27	6.8	(3.6)	3.2
Total liabilities		5,705.8	(3.6)	5,702.2
Profit participating deferred shares	29	173.7	0.7	174.4
General reserves		236.1	2.1	238.2
Total equity attributable to members		497.8	2.8	500.6
Total liabilities and equity		6,203.6	(0.8)	6,202.8
Statement of Cash Flows				
Loss on ordinary activities before tax from continuing activities		(9.4)	0.3	(9.1)
Movement in provisions for liabilties		0.4	(0.3)	0.1

	Notes	Previously published 2013 £m	IFRIC 21 adjustment 2013 £m	Restated 2013 £m
Society				
Income Statement				
Provisions for liabilities	27	(2.7)	0.3	(2.4)
Loss before tax		(7.6)	0.3	(7.3)
Loss for the financial year		(5.1)	0.3	(4.8)
Statement of Financial Position				
Deferred tax assets	21	12.2	(0.8)	11.4
Total assets		6,150.0	(0.8)	6,149.2
Provisions for liabilities	27	6.8	(3.6)	3.2
Total liabilities		5,645.7	(3.6)	5,642.1
Profit participating deferred shares	29	173.7	0.7	174.4
General reserves		242.6	2.1	244.7
Total equity attributable to members		504.3	2.8	507.1
Total liabilities and equity		6,150.0	(0.8)	6,149.2
Statement of Cash Flows				
Loss on ordinary activities before tax from continuing activities		(7.6)	0.3	(7.3)
Movement in provisions for liabilties		0.4	(0.3)	0.1

The provision disclosed in the prior year accounts reflected the estimated management expenses levies for scheme years 2012/13 and 2013/14, together with the compensation levy for 2013/14. On implementation of IFRIC 21 the 2013 provision has been restated to equate to the management expenses levy for scheme year 2012/13, as the date for recognition of the 2013/14 levies had not been triggered at 31 March 2013.

The following Accounting Standard amendments were issued but not effective for 2013/14:

- IAS 27 (revised) 'Separate Financial Statements'. The amendment is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. The application of this revised standard is not expected to have a material impact on the financial statements.
- IAS 28 (revised) 'Investments in Associates and Joint Ventures'. The amendment is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. The application of this revised Standard is not expected to have a material impact on the financial statements.

1. Accounting policies (continued)

- IFRS 10 'Consolidated Financial Statements'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It introduces a single consolidation model for all entities based on control. The application of this new standard is not expected to have a material impact on the financial statements.
- IFRS 11 'Joint Arrangements'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It requires a party to a joint arrangement to account for its rights and obligations in accordance with the type of joint arrangement. The application of this new standard is not expected to have a material impact on the financial statements.
- IFRS 12 'Disclosure of Interests in Other Entities'. The new standard is effective for annual periods beginning on or after 1 January 2013 and endorsed by the EU for application from 1 January 2014. It requires extensive disclosures with respect to interests in other entities. Other than the additional disclosure requirements, the application of this new standard is not expected to have a significant impact on the financial statements.
- Amendment to IAS 32 'Financial Instruments: Presentation'. The amendment is effective for annual periods beginning on or after 1 January 2014 and clarifies requirements for offsetting financial assets and financial liabilities. The application of this revised standard is not expected to have a material impact on the financial statements.

The following Accounting Standard was neither adopted by the European Union nor effective for 2013/14:

- IFRS 9 'Financial Instruments'. This standard introduces new requirements with respect to classification and measurement of financial instruments. IFRS 9 is subject to EU endorsement, the timing of which is uncertain. The standard is currently expected to be effective for annual periods beginning on or after 1 January 2018. The Group is monitoring developments and considering the associated impact on the Annual Report and Accounts.

The Group did not early adopt any of the above in the financial year ended 31 March 2014.

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 provisions 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.

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

Segmental reporting

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

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

Information regarding the results of each reportable segment is included in note 39.

Interest receivable and expense

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

Effective interest rate

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

Fees and commissions receivable and payable

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

Investment properties

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

Financial instruments

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

a) Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

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

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

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

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

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

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

ii) Cash flow hedges – The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised within the Statement of Comprehensive Income and the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are recycled to the Income Statement in the periods in which the hedged item will affect profit or loss (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, the host instrument is then measured in accordance with the relevant IFRS standard.

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

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

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

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

1. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fair value designation, once made, is irrevocable. Designation of financial assets and financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties and are normally derecognised when sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken directly to the Income Statement. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in net income from financial instruments designated at fair value. Note 30 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

1. Accounting policies (continued)

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

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

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

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

g) Sale and repurchase agreements

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

Intangible assets

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's applicable cash generating units. Each unit is tested at least annually and reviewed for impairment indicators at each reporting date, with a further impairment test performed if indicators deem necessary. The impairment test compares the carrying value of goodwill to the higher of its fair value less costs of sale and its value in use. The value in use calculations are carried out by discounting the future cash flows of the cash generating unit.

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

Computer software

Computer software which is not an integral part of the related hardware is recorded as an intangible asset. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Intangible assets are held at amortised cost, amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of 3 to 7 years; they are subject to regular impairment reviews. Costs associated with maintaining software are recognised as an expense when incurred.

Property, plant and equipment

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

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

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

Buildings	Up to 50 years
Short leasehold properties	Annual instalments over the period of the lease
Equipment, fixtures and fittings and motor vehicles	
• Office equipment	3 to 7 years
• Computer equipment	3 to 7 years
• Motor vehicles	25% per annum reducing balance
• Refurbishments	5 to 10 years

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

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

Leases

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

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

Cash and cash equivalents

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

Taxation

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

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

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

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

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

Provisions and contingent liabilities

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

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

Employee benefits

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

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

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

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

Critical accounting estimates and judgments in applying accounting policies

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

Pensions

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

These judgments, which are based upon the Board receiving external advice from the scheme actuaries, are outlined in note 32 to the Accounts.

Impairment losses on loans and advances

The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgment. Provisions are calculated using historic default and loss experience, but require judgment to be exercised in predicting economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time before impairments are identified (emergence period). The most critical estimate is of the level of house prices where a variance of 10% equates to £1.1m of provision. Other sensitivities include the emergence period, where a variance of six months equates to £0.6m, and the loss given default rate, where a 10% variance equates to £0.4m 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 to be received. Management regularly reviews these assumptions and compares with actual results.

If the average lives of the mortgages were to increase by 5%, the carrying value of mortgages would change by £0.1m with a corresponding change to income.

Investment properties

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

If house prices were to change by 5%, the carrying value of the investment properties would change by £5.8m with a corresponding change to income.

1. Accounting policies (continued)

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

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

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

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

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

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

The assumptions surrounding future expected credit losses and increases in the Bank Rate of interest represent the most subjective areas of judgment in management's projections of future taxable profits. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets and it is on this basis that the deferred tax assets have been recognised. Deferred tax has been recognised at 20%, being the rate substantively enacted at the date of the Statement of Financial Position.

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

- When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Group's Statement of Financial Position;
- When the Group transfers financial assets to an unconsolidated entity and it retains substantially all of the risk and rewards relating to the transferred assets, the transferred assets are recognised in the Group's Statement of Financial Position;
- When the Group transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognised from the Group's Statement of Financial Position; and
- When the Group neither transfers nor retains substantially all the risks and rewards relating to a transferred financial asset and it retains control of the transferred asset, the Group continues to recognise the transferred financial asset to the extent of its continuing involvement in that transferred financial asset. Details of the Group's securitisation activities are given in note 14.

2. Interest receivable and similar income

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
On financial assets not at fair value through profit or loss:				
Loans fully secured on residential property	**104.8**	113.8	**53.2**	58.8
Deferred consideration	**-**	-	**6.9**	1.7
Other loans				
Connected undertakings	**-**	-	**68.6**	77.3
Loans fully secured on land	**37.0**	48.4	**1.3**	1.9
Investment securities	**9.6**	12.7	**20.8**	26.0
Other liquid assets	**1.9**	2.5	**1.6**	2.0
On financial assets at fair value through profit or loss:				
Net expense on derivative financial instruments	**(19.8)**	(19.3)	**(15.7)**	(12.3)
Loans fully secured on land	**2.4**	3.0	**-**	-
Total interest income	**135.9**	161.1	**136.7**	155.4
Interest receivable includes:				
Income from fixed income securities	**6.6**	9.1	**6.6**	9.1

Included within interest receivable and similar income is interest accrued on impaired residential mortgage assets: Group £3.9m (2012/13: £3.2m) and Society £2.7m (2012/13: £2.4m) and interest accrued on impaired commercial mortgage assets: Group £9.5m (2012/13: £20.4m) and Society £nil (2012/13: £nil).

3. Interest expense and similar charges

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
On financial liabilities not at fair value through profit or loss:				
Shares held by individuals	**71.2**	113.6	**71.2**	113.6
Deposits from banks and other deposits	**17.7**	16.0	**7.4**	7.4
Deemed loans	**-**	-	**20.9**	11.5
On financial liabilities at fair value through profit or loss:				
Net income on derivative financial instruments	**(1.2)**	(2.2)	**(1.2)**	(2.2)
Total interest expense	**87.7**	127.4	**98.3**	130.3

4. Other operating income/(expense)

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Other operating income/(expense) includes:				
Net rent receivable on investment property	**3.9**	4.0	**-**	-
Pension fund income (note 32)	**0.1**	0.4	**0.1**	0.4
Other	**(0.4)**	(0.1)	**(0.5)**	0.1
Total other operating income/(expense)	**3.6**	4.3	**(0.4)**	0.5

5. Fair value gains/(losses) on financial instruments

	Group 2014 £m	Group 2013 £m	**Society 2014 £m**	Society 2013 £m
Fair value hedges				
Derivatives designated as fair value hedges	**39.1**	(1.0)	**34.4**	(22.2)
(Loss)/Gain on hedged items attributable to hedged risk	**(41.5)**	(0.4)	**(36.4)**	20.9
Cash flow hedges				
Derivatives designated as cash flow hedges	**0.2**	-	**-**	-
Fair value losses on hedge accounting	**(2.2)**	(1.4)	**(2.0)**	(1.3)
Other derivatives	**6.8**	(0.3)	**3.6**	2.3
Total fair value gains/(losses) on financial instruments	**4.6**	(1.7)	**1.6**	1.0

6. Net realised (losses)/profits

Net realised (losses)/profits arise on the sale of treasury instruments. The Society is required to periodically sell a proportion of its liquid assets to prove that they remain liquid. By their nature these sources of income are highly variable.

7. Administrative expenses

	Group 2014 £m	Group 2013 £m	**Society 2014 £m**	Society 2013 £m
Staff costs				
Wages and salaries	**23.3**	22.2	**22.1**	21.0
Social security costs	**2.1**	2.1	**1.9**	1.9
Other pension costs	**1.6**	1.1	**1.5**	1.0
Rental charges payable under operating leases	**0.5**	0.5	**0.5**	0.5
Other administrative expenses	**13.1**	13.4	**8.7**	8.0
	40.6	39.3	**34.7**	32.4
Other administrative expenses include:				
Remuneration of auditor (excluding VAT element)				
Audit of these financial statements	**0.1**	0.1	**0.1**	0.1
Audit of the subsidiary financial statements	**0.1**	0.1	**-**	-

8. Employee numbers

	Group 2014	Group 2013	**Society 2014**	Society 2013
The average number of employees employed throughout the year was:				
Full time	**652**	637	**642**	631
Part time	**111**	124	**110**	122
	763	761	**752**	753
Building Society				
Central administration	**493**	483	**493**	483
Branches	**259**	270	**259**	270
Subsidiaries	**11**	8	**-**	-
	763	761	**752**	753

9. Directors' emoluments

Total Directors' emoluments amounted to £1.765m (2012/13: £1.690m). Full details are given in the Directors' Remuneration Report on pages 36 to 41.

10. Taxation

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
UK corporation tax at 23% (2012/13: 24%)	**1.2**	(2.0)	**1.1**	(2.0)
Corporation tax – adjustment in respect of prior years	**-**	-	**-**	(0.2)
Total current tax	**1.2**	(2.0)	**1.1**	(2.2)
Deferred tax				
Current year	**0.3**	(1.0)	**0.7**	1.0
Adjustment in respect of prior periods	**(0.4)**	(1.4)	**(0.2)**	(1.3)
Tax on profit/(loss) on ordinary activities	**1.1**	(4.4)	**1.6**	(2.5)

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

The effective tax rate for the Group for the year ended 31 March 2014 is 52.4% (2012/13: 48.4%). The rate is higher than the UK standard rate of tax due principally to the effect on deferred tax of the forthcoming change in the UK corporation tax rate from 23% to 20%. Further information about deferred tax is presented in note 21.

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

	Group 2014 £m	Group 2013* £m	Society 2014 £m	Society 2013* £m
Profit/(Loss) before tax	**2.1**	(9.1)	**(9.4)**	(7.3)
Profit/(Loss) before tax multiplied by the UK standard rate of tax of 23% (2012/13: 24%)	**0.5**	(2.2)	**(2.2)**	(1.8)
Effects of:				
Income not taxable and expenses not deductible for tax purposes	**(0.4)**	(1.5)	**2.5**	0.3
Changes to tax rate	**2.7**	0.9	**1.5**	0.5
Adjustment in respect of prior years	**(0.4)**	(1.4)	**(0.2)**	(1.5)
Revaluation	**(1.3)**	(0.2)	**-**	-
Tax charge/(credit)	**1.1**	(4.4)	**1.6**	(2.5)

* Restated due to change in accounting policy as described in note 1.

11. Cash and balances with the Bank of England

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Cash in hand	**2.1**	2.3	**2.1**	2.3
Cash ratio deposit with the Bank of England	**8.2**	5.5	**8.2**	5.5
Other deposits with the Bank of England	**126.0**	384.5	**126.0**	384.5
	136.3	392.3	**136.3**	392.3

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

12. Investment securities

	Group 2014 £m	Group 2013 £m	**Society 2014 £m**	Society 2013 £m
Investment securities: available for sale				
Listed	**438.6**	499.5	**438.6**	499.5
Unlisted	**23.0**	-	**23.0**	-
Investment securities: held to maturity				
Listed	**-**	-	**1,078.9**	1,099.0
Total investment securities	**461.6**	499.5	**1,540.5**	1,598.5

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

The movement in investment securities may be summarised as follows:

	Group 2014 £m	Group 2013 £m	**Society 2014 £m**	Society 2013 £m
At beginning of year	**499.5**	924.5	**1,598.5**	2,056.4
Additions	**214.1**	684.1	**254.7**	853.8
Disposals (sale and redemption)	**(245.8)**	(1,124.7)	**(306.5)**	(1,327.3)
(Losses)/Gains from changes in fair value	**(6.2)**	15.6	**(6.2)**	15.6
At end of year	**461.6**	499.5	**1,540.5**	1,598.5

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

At 31 March 2014, £19.7m (2012/13: £337.1m) of Group investment securities and £nil (2012/13: £0.1m) of cash were pledged as collateral under sale and repurchase agreements. All sale and repurchase transactions are conducted in line with market standard terms and conditions as defined in ISMA PSA Global Master Repurchase Agreements.

Included within investment securities are £14.1m (2012/13: £18.4m) of residential mortgage backed securities which have a registered charge on them in favour of the Society defined benefit pension scheme. The cash flows from these assets are used as contributions by the Society to the pension scheme.

13. Derivative financial instruments

A description of the derivative financial instruments used by the Group for hedging purposes is given in note 35.

The fair values of derivative instruments held at 31 March 2014 are set out below. The other derivatives held for hedging are held for economic hedging purposes.

Group	**Notional principal amount 2014 £m**	**Fair values**	
		Assets 2014 £m	**Liabilities 2014 £m**
Derivatives held for hedging			
Derivatives designated as fair value hedges	**824.3**	**5.8**	**(50.3)**
Derivatives designated as cash flow hedges	**75.0**	**0.1**	**-**
Other derivatives held for hedging	**1,784.6**	**27.9**	**(11.7)**
Total derivative assets/(liabilities) held for hedging	**2,683.9**	**33.8**	**(62.0)**

Society	**Notional principal amount 2014 £m**	**Fair values**	
		Assets 2014 £m	**Liabilities 2014 £m**
Derivatives held for hedging			
Derivatives designated as fair value hedges	**841.6**	**5.8**	**(44.1)**
Other derivatives held for hedging	**1,425.5**	**27.5**	**(6.4)**
Total derivative assets/(liabilities) held for hedging	**2,267.1**	**33.3**	**(50.5)**

Group	Notional principal amount 2013 £m	Fair values	
		Assets 2013 £m	Liabilities 2013 £m
Derivatives held for hedging			
Derivatives designated as fair value hedges	1,052.0	6.5	(91.1)
Other derivatives held for hedging	987.1	23.0	(8.3)
Total derivative assets/(liabilities) held for hedging	2,039.1	29.5	(99.4)

Society	Notional principal amount 2013 £m	Fair values	
		Assets 2013 £m	Liabilities 2013 £m
Derivatives held for hedging			
Derivatives designated as fair value hedges	979.4	6.5	(80.1)
Other derivatives held for hedging	637.9	23.0	(0.3)
Total derivative assets/(liabilities) held for hedging	1,617.3	29.5	(80.4)

At 31 March 2014, £55.5m (2012/13: £70.0m) of cash was pledged as collateral against derivative financial instruments.

14. Loans and advances to customers

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Loans and receivables				
Loans fully secured on residential property	**3,860.1**	4,004.5	**1,730.7**	1,716.6
Other loans				
Loans fully secured on land	**846.5**	990.3	**18.5**	31.6
Other loans	**0.1**	0.1	**-**	-
	4,706.7	4,994.9	**1,749.2**	1,748.2
At fair value through profit or loss				
Other loans				
Loans fully secured on land	**59.0**	70.5	**-**	-
	4,765.7	5,065.4	**1,749.2**	1,748.2
Less: impairment provisions	**(85.2)**	(94.3)	**(16.1)**	(19.8)
	4,680.5	4,971.1	**1,733.1**	1,728.4

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

Group	Assets pledged 2014 £m	Secured funding 2014 £m	Assets pledged 2013 £m	Secured funding 2013 £m
Securitisations	**605.9**	**599.5**	350.0	328.3

Included within loans and advances to customers are £177.9m (2012/13: £216.6m) of commercial mortgage balances and £1,500.5m (2012/13: £1,228.9m) of residential mortgage balances that the Group has sold to bankruptcy remote special purpose entities (SPEs). The SPEs have been funded by issuing mortgage backed securities (MBSs) of which £1,078.9m (2012/13: £1,103.2m) are held by the Group.

The Group has made subordinated loans to the SPEs to provide some level of credit enhancement to the MBSs. In future periods the Group will earn interest income on the subordinated loans and fees for managing the loans. The Group will earn deferred consideration once the cash flows generated by the SPEs have been used to pay interest and capital to the holders of the MBSs. Since the Group maintains substantially all of the risks (key risk being an exposure to credit risk through the subordinated loan agreements) and rewards emanating from the mortgages, they have been retained on the Group's Statement of Financial Position in accordance with IAS 39.

15. Allowance for losses on loans and advances

	Loans fully secured on residential property		Loans fully secured on land		Total		
Group	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Total £m
At 1 April 2013	32.0	8.3	47.2	6.8	79.2	15.1	**94.3**
Amounts written off	(15.7)	-	(10.0)	-	(25.7)	-	**(25.7)**
Charge/(Credit) for the year comprising:							
Provision/(Release) for loan impairment	6.3	(1.1)	11.6	1.3	17.9	0.2	**18.1**
Provision in excess of the securitisation first loss	-	-	2.6	0.4	2.6	0.4	**3.0**
Change in carrying value of debt securities in issue	-	-	(2.6)	(0.4)	(2.6)	(0.4)	**(3.0)**
Adjustments to provisions resulting from recoveries	(2.3)	-	(2.2)	-	(4.5)	-	**(4.5)**
Charge/(Credit) for the year	4.0	(1.1)	9.4	1.3	13.4	0.2	**13.6**
Non-recourse finance on securitised advances	-	-	2.6	0.4	2.6	0.4	**3.0**
At 31 March 2014	**20.3**	**7.2**	**49.2**	**8.5**	**69.5**	**15.7**	**85.2**

Included within loans fully secured on residential property are loans originated through the commercial division. At 31 March 2014, the provision against these loans totalled £0.6m (2012/13: £8.8m), with a net charge for the year of £0.2m (2012/13: £1.1m). The total provision balance relating to the commercial division is £58.3m (2012/13: £62.8m), with a charge for the year of £10.9m (2012/13: £6.7m).

The charge for the year includes impairments of £3.0m (2012/13: £1.8m) against loans in securitised entities, Sandwell Commercial Finance No.1 Plc: £0.1m charge (2012/13: £2.3m credit) and Sandwell Commercial Finance No. 2 Plc: £2.9m charge (2012/13: £4.1m charge). The loss from these impairments is borne by the external loan note holders as it exceeds the first loss exposure held by the Group. The carrying value of the external loan notes has been adjusted by an equivalent amount.

Society	**Loans fully secured on residential property** Individual £m	Collective £m	**Loans fully secured on land** Individual £m	Collective £m	**Total** Individual £m	Collective £m	**Total £m**
At 1 April 2013	13.6	6.2	-	-	13.6	6.2	**19.8**
Amounts written off	(3.3)	-	-	-	(3.3)	-	**(3.3)**
Charge/(Credit) for the year comprising:							
Provision/(Release) for loan impairment	2.4	(1.6)	-	-	2.4	(1.6)	**0.8**
Adjustments to provisions resulting from recoveries	(1.2)	-	-	-	(1.2)	-	**(1.2)**
Charge/(Credit) for the year	1.2	(1.6)	-	-	1.2	(1.6)	**(0.4)**
At 31 March 2014	**11.5**	**4.6**	**-**	**-**	**11.5**	**4.6**	**16.1**

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 2012	31.0	9.5	43.6	14.6	74.6	24.1	98.7
Amounts written off	(5.4)	-	(11.6)	-	(17.0)	-	(17.0)
Charge/(Credit) for the year comprising:							
Provision/(Release) for loan impairment	8.2	(1.2)	11.3	(5.5)	19.5	(6.7)	12.8
Provision/(Release) in excess of the securitisation first loss	-	-	4.1	(2.3)	4.1	(2.3)	1.8
Change in carrying value of debt securities in issue	-	-	(4.1)	2.3	(4.1)	2.3	(1.8)
Adjustments to provisions resulting from recoveries	(1.8)	-	(0.2)	-	(2.0)	-	(2.0)
Charge/(Credit) for the year	6.4	(1.2)	11.1	(5.5)	17.5	(6.7)	10.8
Non-recourse finance on securitised advances	-	-	4.1	(2.3)	4.1	(2.3)	1.8
At 31 March 2013	32.0	8.3	47.2	6.8	79.2	15.1	94.3

Society	Loans fully secured on residential property Individual £m	Collective £m	Loans fully secured on land Individual £m	Collective £m	Total Individual £m	Collective £m	Total £m
At 1 April 2012	12.4	6.9	-	-	12.4	6.9	19.3
Amounts written off	(1.2)	-	-	-	(1.2)	-	(1.2)
Charge/(Credit) for the year comprising:							
Provision/(Release) for loan impairment	3.1	(0.7)	-	-	3.1	(0.7)	2.4
Adjustments to provisions resulting from recoveries	(0.7)	-	-	-	(0.7)	-	(0.7)
Charge/(Credit) for the year	2.4	(0.7)	-	-	2.4	(0.7)	1.7
At 31 March 2013	13.6	6.2	-	-	13.6	6.2	19.8

16. Investments

	Shares in subsidiary undertakings		Loans to subsidiary undertakings		Total	
Society	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Cost						
At beginning of year	**0.6**	0.6	**2,292.1**	2,274.1	**2,292.7**	2,274.7
(Decrease)/Increase for the year	**-**	-	**(194.3)**	18.0	**(194.3)**	18.0
At end of year	**0.6**	0.6	**2,097.8**	2,292.1	**2,098.4**	2,292.7
Provisions						
At beginning of year	**-**	-	**-**	-	**-**	-
Charge for the year	**-**	-	**9.9**	-	**9.9**	-
At end of year	**-**	-	**9.9**	-	**9.9**	-
Net book value at end of year	**0.6**	0.6	**2,087.9**	2,292.1	**2,088.5**	2,292.7

Investments in subsidiary undertakings are financial fixed assets and are held at cost less impairment. 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%
CL Mortgages Limited (1)	Hold and dispose of debts secured on land and lend money on the security of land	Ordinary £1 shares	100%
West Bromwich Homes Limited	Investment in property for rental	Ordinary £1 shares	100%
West Bromwich Financial Planning Limited	Financial services product vendor	Ordinary £1 shares	100%
Insignia Finance Limited	Second charge lending	Ordinary £500 shares	100%
White Label Lending Limited (2)	Second charge lending	Ordinary £1 shares	100%
Millinet Limited (3)	Hold investments in loan notes secured on commercial mortgage portfolios	Ordinary £1 shares	100%

(1) The entire share capital of CL Mortgages Limited is held by West Bromwich Mortgage Company Limited.
(2) The entire share capital of White Label Lending Limited is held by Insignia Finance Limited.
(3) Millinet Limited was dissolved in May 2014. The entire share capital of Millinet Limited was held by West Bromwich Commercial Limited.

Securitisation entities

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

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

The Society has no shareholdings in any of the companies listed above. Unless stated otherwise above, all are incorporated in the United Kingdom and operate in Great Britain.

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

Sandwell Commercial Finance No. 3 Limited was closed in September 2013.

17. Goodwill

	Group 2014 £m	Group 2013 £m
Cost and net book value		
At beginning and end of year	**0.6**	0.6

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

The recoverable amount of the remaining CGU (Insignia) has been calculated with reference to future earnings and value in use. The calculations incorporate cash flow projections from the three year business plan approved by the Group Board and cash flow forecasts for the following 10 years, reflecting the enduring nature of the business concerned. The long term growth rates of 3.0% (2012/13: 3.0%) are based upon management's expectations of long-term GDP growth over the forecast period. The pre-tax rate used to discount projected cash flows is 12.5% (2012/13: 12.5%), reflecting management's estimate of the required return from the CGU by market participants.

18. Intangible assets

Group and Society	Computer software 2014 £m	Computer software 2013 £m
Cost		
At beginning of year	**16.4**	13.8
Additions	**3.1**	2.6
Disposals	**(5.3)**	-
At end of year	**14.2**	16.4
Aggregate amortisation		
At beginning of year	**9.1**	6.9
Charge for the year	**2.3**	2.2
Disposals	**(5.3)**	-
At end of year	**6.1**	9.1
Net book value at end of year	**8.1**	7.3
Net book value at beginning of year	**7.3**	6.9

19. Investment properties

	Group 2014 £m	Group 2013 £m
Valuation		
At beginning of year	**112.5**	112.7
Disposals	**(2.4)**	-
Revaluation gains/(losses)	**5.1**	(0.2)
At end of year	**115.2**	112.5

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 Limited. This review involved a physical 'drive by' inspection of a sample of approximately 10% of the total portfolio, together with a review of desktop market value assessments and output from an automated valuation model of all remaining properties on an individual basis.

e.surv Limited confirms that, based on the valuation output reviewed, it is satisfied that the overall valuation of the portfolio at 31 March 2014 is a fair reflection of market value. The valuation was prepared in accordance with the Valuation Standards issued by the Royal Institution of Chartered Surveyors (known as the 'Red Book'), in particular UK Practice Statement 1. Market value is as defined in Practice Statement 3.2. This fair value measurement is categorised as a Level 3 fair value measurement, based on the inputs to the valuation technique used as described in note 33.

If the land and buildings were carried at cost, the carrying amount would be £87.1m (2012/13: £88.9m).

The Group leases investment properties to non-commercial individuals for a contract period of up to 18 months. The future minimum lease receipts under non-cancellable operating leases that end within 12 months are £2.5m (2012/13: £2.4m). The Group has not recognised any contingent rent in the period (2012/13: £nil).

20. Property, plant and equipment

Group	Land and buildings Freehold £m	In the course of construction £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation						
At 1 April 2013	7.6	-	-	0.7	20.9	**29.2**
Additions	-	2.7	-	-	1.1	**3.8**
Disposals	(0.3)	-	-	-	(2.3)	**(2.6)**
Revaluation	(1.8)	-	-	-	-	**(1.8)**
Transfers	(0.5)	0.2	0.5	-	(0.2)	**-**
At 31 March 2014	**5.0**	**2.9**	**0.5**	**0.7**	**19.5**	**28.6**
Accumulated depreciation						
At 1 April 2013	2.3	-	-	0.6	9.8	**12.7**
Charge for the year	-	-	-	-	2.1	**2.1**
Disposals	-	-	-	-	(2.3)	**(2.3)**
Revaluation	(2.3)	-	-	-	-	**(2.3)**
At 31 March 2014	**-**	**-**	**-**	**0.6**	**9.6**	**10.2**
Net book value						
At 31 March 2014	**5.0**	**2.9**	**0.5**	**0.1**	**9.9**	**18.4**

Group	Land and buildings Freehold £m	In the course of construction £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation						
At 1 April 2012	7.8	-	-	0.7	18.5	27.0
Additions	-	-	-	-	2.5	2.5
Disposals	(0.2)	-	-	-	(0.1)	(0.3)
At 31 March 2013	7.6	-	-	0.7	20.9	29.2
Accumulated depreciation						
At 1 April 2012	1.5	-	-	0.6	7.3	9.4
Charge for the year	0.8	-	-	-	2.6	3.4
Disposals	-	-	-	-	(0.1)	(0.1)
At 31 March 2013	2.3	-	-	0.6	9.8	12.7
Net book value						
At 31 March 2013	5.3	-	-	0.1	11.1	16.5

Society	Land and buildings Freehold £m	In the course of construction £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation						
At 1 April 2013	7.6	-	-	0.7	20.7	**29.0**
Additions	-	2.7	-	-	1.1	**3.8**
Disposals	(0.3)	-	-	-	(2.3)	**(2.6)**
Revaluation	(1.8)	-	-	-	-	**(1.8)**
Transfers	(0.5)	0.2	0.5	-	(0.2)	**-**
At 31 March 2014	**5.0**	**2.9**	**0.5**	**0.7**	**19.3**	**28.4**
Accumulated depreciation						
At 1 April 2013	2.3	-	-	0.6	9.6	**12.5**
Charge for the year	-	-	-	-	2.1	**2.1**
Disposals	-	-	-	-	(2.3)	**(2.3)**
Revaluation	(2.3)	-	-	-	-	**(2.3)**
At 31 March 2014	**-**	**-**	**-**	**0.6**	**9.4**	**10.0**
Net book value						
At 31 March 2014	**5.0**	**2.9**	**0.5**	**0.1**	**9.9**	**18.4**

Society	Land and buildings Freehold £m	In the course of construction £m	Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation						
At 1 April 2012	7.8	-	-	0.7	18.3	26.8
Additions	-	-	-	-	2.5	2.5
Disposals	(0.2)	-	-	-	(0.1)	(0.3)
At 31 March 2013	7.6	-	-	0.7	20.7	29.0
Accumulated depreciation						
At 1 April 2012	1.5	-	-	0.6	7.1	9.2
Charge for the year	0.8	-	-	-	2.6	3.4
Disposals	-	-	-	-	(0.1)	(0.1)
At 31 March 2013	2.3	-	-	0.6	9.6	12.5
Net book value						
At 31 March 2013	5.3	-	-	0.1	11.1	16.5

The net book value of land and buildings occupied for the Society's own use is £8.5m (2012/13: £5.4m).

The Group's freehold branch properties were revalued at 31 March 2014 by Colliers International, a firm of independent chartered surveyors. The valuations were undertaken in accordance with the Valuation Standards issued by the Royal Institution of Chartered Surveyors in the United Kingdom. These valuations have been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve.

If land and buildings were carried at cost, the carrying amount would be £4.9m (2012/13: £2.4m).

The Group's property, plant and equipment is included in Retail for the purposes of segmental reporting.

21. Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 20% (2012/13: 23%). The movement on the deferred tax account is as follows:

	Group 2014 £m	Group 2013* £m	Society 2014 £m	Society 2013* £m
At beginning of year	**18.9**	16.7	**11.0**	10.9
Current year Income Statement (charge)/credit	**(0.3)**	1.0	**(0.7)**	(1.0)
Amount recognised directly in equity	**1.2**	(0.2)	**1.2**	(0.2)
Adjustments in respect of prior years	**0.4**	1.4	**0.2**	1.3
At end of year	**20.2**	18.9	**11.7**	11.0

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

	Group 2014 £m	Group 2013* £m	Society 2014 £m	Society 2013* £m
Deferred tax assets				
Accelerated tax depreciation	**4.5**	4.0	**4.4**	3.9
Carried forward tax losses	**17.5**	16.7	**6.3**	5.5
Pensions and other post retirement benefits	**0.3**	-	**0.3**	-
Other temporary differences	**1.5**	2.5	**1.2**	2.0
	23.8	23.2	**12.2**	11.4
Deferred tax liabilities				
Property valuations	**(3.0)**	(3.4)	**(0.5)**	(0.4)
Other temporary differences	**(0.6)**	(0.9)	**-**	-
	(3.6)	(4.3)	**(0.5)**	(0.4)

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

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Accelerated tax depreciation	**0.5**	0.8	**0.5**	0.8
Other provisions	**-**	0.7	**(0.1)**	0.6
Carried forward tax losses	**(0.9)**	0.5	**(0.9)**	(1.1)
Property valuations	**0.5**	0.4	**-**	-
	0.1	2.4	**(0.5)**	0.3

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

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

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Group's future current tax charge accordingly.

Deferred tax assets and liabilities have been calculated at 20% (2012/13: 23%), being the rate substantively enacted at the Statement of Financial Position date.

* Restated due to a change in accounting policy as described in note 1.

22. Trade and other receivables

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Prepayments and accrued income	**2.5**	2.4	**1.9**	1.9
Other	**0.3**	0.4	**0.1**	0.4
	2.8	2.8	**2.0**	2.3

23. Shares

Group and Society	2014 £m	2013 £m
Held by individuals	**4,234.5**	4,651.1
Other shares	**1.1**	1.1
	4,235.6	4,652.2

24. Amounts due to other customers

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Deemed loans	**-**	-	**600.2**	290.7
Other customers	**121.0**	193.0	**122.9**	194.8
	121.0	193.0	**723.1**	485.5

25. Debt securities in issue

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Certificates of deposit	**3.0**	4.0	**3.0**	4.0
Other debt securities	**74.5**	376.8	**74.5**	376.8
Non-recourse finance on securitised advances	**599.5**	328.3	**-**	-
	677.0	709.1	**77.5**	380.8

The non-recourse finance comprises mortgage backed floating rate notes (the Notes) secured over portfolios of mortgage loans secured by first charges over residential and commercial properties in the United Kingdom (see note 14). Prior to redemption of the Notes on the final interest payment dates, the Notes will be subject to mandatory and/or optional redemption, in certain circumstances, on each interest payment date. See note 30 for details of assets and liabilities held at fair value through profit or loss.

26. Trade and other payables

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Accruals	**8.2**	5.5	**7.8**	4.8
Other creditors	**2.8**	3.7	**1.9**	3.0
Income tax	**2.6**	3.3	**2.6**	3.3
	13.6	12.5	**12.3**	11.1

27. Provisions and contingent liabilities

	FSCS 2014 £m	Onerous contracts 2014 £m	Other 2014 £m	Total 2014 £m
Group				
At beginning of year (restated)	**2.4**	**0.8**	**-**	**3.2**
Utilised in the year	**(4.1)**	**(0.3)**	**-**	**(4.4)**
Charge for the year	**3.8**	**-**	**2.5**	**6.3**
At end of year	**2.1**	**0.5**	**2.5**	**5.1**

	FSCS 2014 £m	Onerous contracts 2014 £m	Other 2014 £m	Total 2014 £m
Society				
At beginning of year (restated)	**2.4**	**0.8**	**-**	**3.2**
Utilised in the year	**(4.1)**	**(0.3)**	**-**	**(4.4)**
Charge for the year	**3.8**	**-**	**1.3**	**5.1**
At end of year	**2.1**	**0.5**	**1.3**	**3.9**

	FSCS 2013* £m	Onerous contracts 2013 £m	Other 2013 £m	Total 2013* £m
Group and Society				
At beginning of year	1.9	1.2	-	3.1
Utilised in the year	(1.9)	(0.4)	-	(2.3)
Charge for the year	2.4	-	-	2.4
At end of year	2.4	0.8	-	3.2

* Restated due to a change in accounting policy as described below and in note 1.

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. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS met these claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS recovers the interest cost, together with ongoing management expenses, by way of annual management levies on members.

The Society FSCS provision reflects market participation up to the reporting date. Following the early application of IFRIC 21, which impacts the trigger date for recognition of FSCS levies, the provision at 31 March 2014 represents the estimated management expenses levy for the scheme year 2013/14. This provision was calculated based on the Society's current share of protected deposits and the FSCS estimate of total management expenses for the scheme year. See note 1 for details of the prior year adjustment arising on implementation of IFRIC 21.

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 £0.3m in year 1 and £0.2m in years 2 to 5.

Other provisions and contingent liabilities

Other provisions represent the Group's best estimate of customer redress arising from a review of its interest charging policy on mortgage redemptions, primarily in respect of mortgages advanced from 2001 to 2007. The calculation was based on a series of assumptions, including the number of affected accounts, appropriate level of remediation and resulting administrative costs. The amounts due are expected to be paid in 2014/15.

Certain external parties have initiated legal proceedings against West Bromwich Mortgage Company Limited (the Company) in relation to an interest rate increase on the non-consumer buy to let portfolio. The rate uplift contributed £4.7m to Group interest receivable for the year ended 31 March 2014. As the Company believes that it has a robust defence to such claims, no provision has been recognised in these financial statements. In respect of those cases which have been referred to the Financial Ombudsman Service (FOS) by individuals, all cases where the Company has been informed by FOS that there has been an adjudication, have been determined in favour of the Company.

28. Subscribed capital

Group and Society	2014 £m	2013 £m
Permanent interest bearing shares	74.9	74.9

In a winding up or dissolution of the Society the claims of the holders of permanent interest bearing shares (PIBS) would rank behind all other creditors of the Society, with the exception of holders of profit participating deferred shares (PPDS) with which the PIBS rank pari-passu, and the claims of members holding shares as to principal and interest. The holders of PIBS are not entitled to any share in any final surplus upon winding up or dissolution of the Society.

With respect to future interest payments, as a condition of the PPDS (see note 29), 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.

29. Profit participating deferred shares

Group and Society	2014 £m	2013* £m
Book value		
Nominal value	182.5	182.5
Cumulative fair value adjustments at date of transition	3.8	3.8
Capitalised issue costs	(2.2)	(2.2)
	184.1	184.1
Cumulative reserve deficit		
At beginning of year	(9.7)	(8.5)
Share of profit/(loss) for the financial year	0.3	(1.2)
	(9.4)	(9.7)
Net value at end of year	174.7	174.4

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

* Restated due to a change in accounting policy as described in note 1.

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

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

	Group 2014 £m	Group 2013 £m
Financial assets at fair value through profit or loss		
Loans fully secured on land		
Carrying value at 31 March	56.5	67.6
Net gains/(losses) in the year	0.1	(2.7)
Financial liabilities at fair value through profit or loss		
Non-recourse finance on securitised advances		
Carrying value at 31 March	53.4	62.7
Net (losses)/gains in the year	(1.2)	3.0
Derivative financial instruments		
Carrying value at 31 March	(4.0)	(5.1)
Net gains/(losses) in the year	1.1	(0.3)

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

Group	Before tax amount 2014 £m	Taxation 2014 £m	Net of tax amount 2014 £m
Available for sale financial assets	**(6.0)**	**1.0**	**(5.0)**
Actuarial loss on retirement benefit obligations	**(6.2)**	**1.4**	**(4.8)**
Revaluation reserve	**0.5**	**-**	**0.5**
Cash flow hedges	**0.2**	**-**	**0.2**
Other comprehensive income	**(11.5)**	**2.4**	**(9.1)**

Society	Before tax amount 2014 £m	Taxation 2014 £m	Net of tax amount 2014 £m
Available for sale financial assets	**(6.0)**	**1.0**	**(5.0)**
Actuarial loss on retirement benefit obligations	**(6.2)**	**1.4**	**(4.8)**
Revaluation reserve	**0.5**	**-**	**0.5**
Other comprehensive income	**(11.7)**	**2.4**	**(9.3)**

Group and Society	Before tax amount 2013 £m	Taxation 2013 £m	Net of tax amount 2013 £m
Available for sale financial assets	10.8	(2.6)	8.2
Actuarial loss on retirement benefit obligations	(1.7)	0.4	(1.3)
Other comprehensive income	9.1	(2.2)	6.9

32. Retirement benefit obligations

Group and Society	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Defined benefit pension scheme obligation/(asset)	**1.4**	(0.4)	0.4	(1.8)	2.0

Defined benefit plans

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

The results of a formal actuarial valuation at 31 March 2013 carried out by the appointed actuary to the scheme were updated to the accounting date by an independent qualified actuary in accordance with IAS 19, 'Employee Benefits'.

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

The Society has granted the Trustees a priority charge over residential mortgage backed securities with a carrying value of £14.1m at 31 March 2014 (2012/13: £18.4m). The cash flows from these assets are used as contributions by the Society to the pension scheme. The estimated amount of total employer contributions expected to be paid to the plan during 2014/15 is £3.3m (2013/14 actual: £4.7m).

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

Group and Society	2014	2013	2012	2011	2010
Pension increases in payment (RPI capped at 5%)	**3.3%**	3.3%	3.2%	3.4%	3.6%
Pension increases in payment (RPI capped at 2.5%)	**-**	-	-	-	2.4%
Pension increases in payment (CPI capped at 2.5%)	**2.0%**	2.0%	1.9%	2.2%	-
Discount rate	**4.6%**	4.4%	4.8%	5.4%	5.6%
Life expectancy of male aged 65 at year end date	**22.9**	22.3	22.2	22.1	22.8
Life expectancy of female aged 65 at year end date	**24.2**	23.7	24.5	24.4	24.8
Life expectancy of male aged 65 at year end date plus 20 years	**24.2**	24.6	23.7	23.6	24.7
Life expectancy of female aged 65 at year end date plus 20 years	**25.7**	26.1	26.0	26.0	25.8

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

Group and Society	2014 £m	2013 £m
Discount rate		
Effect on defined benefit obligation of a 1% increase	**(15.2)**	(15.2)
Inflation		
Effect on defined benefit obligation of a 1% increase	**12.8**	12.3
Life expectancy		
Effect on defined benefit obligation of a 1 year increase	**2.3**	2.3

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

Group and Society	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Present value of funded obligations	**85.1**	87.9	79.1	72.1	70.7
Present value of unfunded obligations	**0.9**	0.9	0.8	0.7	0.8
	86.0	88.8	79.9	72.8	71.5
Fair value of scheme assets	**(84.6)**	(89.2)	(79.5)	(74.6)	(69.5)
Net liability/(asset) in the Statement of Financial Position	**1.4**	(0.4)	0.4	(1.8)	2.0

32. Retirement benefit obligations (continued)

The amounts recognised in the Income Statement are as follows:

Group and Society	2014 £m	2013 £m	2012 £m
Interest cost	**3.8**	3.8	3.9
Interest receivable on plan assets	**(3.9)**	(4.2)	(4.6)
Running costs	**0.4**	-	-
Total pension fund cost/(income)	**0.3**	(0.4)	(0.7)

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

Change in benefit obligations

Group and Society	2014 £m	2013 £m	2012 £m
Benefit obligations at beginning of year	**88.8**	79.9	72.8
Interest cost	**3.8**	3.8	3.9
Actuarial (gains)/losses	**(3.7)**	7.5	4.9
Running costs (release of reserve)	**(0.1)**	-	-
Benefits paid	**(2.8)**	(2.4)	(1.7)
Benefit obligations at end of year	**86.0**	88.8	79.9

Change in scheme assets

Group and Society	2014 £m	2013 £m	2012 £m
Fair value of scheme assets at beginning of year	**89.2**	79.5	74.6
Interest receivable on plan assets	**3.9**	4.2	4.6
Actuarial (losses)/gains	**(9.9)**	5.8	0.6
Contribution by employer	**4.7**	2.1	1.4
Running costs	**(0.5)**	-	-
Benefits paid	**(2.8)**	(2.4)	(1.7)
Fair value of scheme assets at end of year	**84.6**	89.2	79.5

The amount recognised outside profit and loss in the Statement of Comprehensive Income for 2013/14 is an actuarial loss of £6.2m (2012/13: £1.7m). The cumulative amount recognised outside profit and loss at 31 March 2014 is an actuarial loss of £31.6m.

History of experience gains and losses

Group and Society	2014	2013	2012	2011	2010
Experience gains/(losses) on scheme assets:					
Amount (£m)	**(9.9)**	5.8	0.6	0.9	13.1
Percentage of scheme assets	**(12%)**	7%	1%	1%	19%
Experience (gains)/losses on scheme liabilities:					
Amount (£m)	**(0.4)**	(0.2)	2.1	2.0	0.5
Percentage of scheme liabilities	**(0%)**	(0%)	3%	3%	1%

Scheme assets

Provisional asset information at bid value was supplied by the investment managers. The unaudited value of the invested assets at 31 March 2014 was £84.6m, analysed as follows:

Group and Society	2014 £m	2013 £m	2012 £m
Equities	**-**	12.8	30.3
Bonds	**-**	-	4.7
Gilts	**-**	34.8	31.6
Tactical asset allocation	**-**	3.0	3.1
Diversified growth fund	**50.0**	33.1	9.6
Liability driven investment	**17.5**	-	-
Insurance asset	**16.5**	-	-
Cash and other assets	**0.6**	5.5	0.2
	84.6	89.2	79.5

As part of its asset and liability matching investment strategy, designed to mitigate inflation and interest rate risk exposure, the Scheme has invested in two pooled liability driven investment funds. In addition, an insurance policy has been purchased to provide income which provides a specific match against the liabilities arising from a large proportion of the Scheme's current pensioners.

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

Stakeholder scheme

The total cost for the year of the stakeholder plan to the Group and Society was £0.9m (2012/13: £0.9m) and there were no outstanding contributions at the end of the year (2012/13: £nil).

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

33. 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). These risks are described in notes 34 to 36.

The use of derivative financial instruments for risk management purposes is described in note 35.

Classification of financial assets and financial liabilities

The following tables show the classification of the Group's and Society's financial assets and liabilities:

At 31 March 2014

Group	Loans and receivables £m	Available for sale £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	136.3	-	-	**136.3**
Loans and advances to credit institutions	169.4	-	-	**169.4**
Investment securities	-	461.6	-	**461.6**
Derivative financial instruments	-	-	33.8	**33.8**
Loans and advances to customers	4,624.0	-	56.5	**4,680.5**
Total financial assets	**4,929.7**	**461.6**	**90.3**	**5,481.6**
Non-financial assets				**168.9**
Total assets				**5,650.5**

	Other financial liabilities £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,235.6	-	**4,235.6**
Amounts due to credit institutions	38.7	-	**38.7**
Amounts due to other customers	121.0	-	**121.0**
Derivative financial instruments	-	62.0	**62.0**
Debt securities in issue	623.6	53.4	**677.0**
Total financial liabilities	**5,018.9**	**115.4**	**5,134.3**
Non-financial liabilities			**23.7**
Total liabilities			**5,158.0**

At 31 March 2013

Group	Loans and receivables £m	Available for sale £m	Fair value through profit or loss £m	Total* £m
Assets				
Cash and balances with the Bank of England	392.3	-	-	392.3
Loans and advances to credit institutions	147.1	-	-	147.1
Investment securities	-	499.5	-	499.5
Derivative financial instruments	-	-	29.5	29.5
Loans and advances to customers	4,903.5	-	67.6	4,971.1
Total financial assets	5,442.9	499.5	97.1	6,039.5
Non-financial assets (restated)				163.3
Total assets				6,202.8

	Other financial liabilities £m	Fair value through profit or loss £m	Total* £m
Liabilities			
Shares	4,652.2	-	4,652.2
Amounts due to credit institutions	28.5	-	28.5
Amounts due to other customers	193.0	-	193.0
Derivative financial instruments	-	99.4	99.4
Debt securities in issue	646.4	62.7	709.1
Total financial liabilities	5,520.1	162.1	5,682.2
Non-financial liabilities (restated)			20.0
Total liabilities			5,702.2

* Restated due to a change in accounting policy as described in note 1.

33. Financial instruments (continued)

Classification of financial assets and financial liabilities (continued)

At 31 March 2014

Society	Loans and receivables £m	Available for sale £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	136.3	-	-	**136.3**
Loans and advances to credit institutions	57.9	-	-	**57.9**
Investment securities	1,078.9	461.6	-	**1,540.5**
Derivative financial instruments	-	-	33.3	**33.3**
Loans and advances to customers	1,733.1	-	-	**1,733.1**
Investments	2,088.5	-	-	**2,088.5**
Total financial assets	**5,094.7**	**461.6**	**33.3**	**5,589.6**
Non-financial assets				**40.7**
Total assets				**5,630.3**

	Other financial liabilities £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	4,235.6	-	**4,235.6**
Amounts due to credit institutions	38.7	-	**38.7**
Amounts due to other customers	723.1	-	**723.1**
Derivative financial instruments	-	50.5	**50.5**
Debt securities in issue	77.5	-	**77.5**
Total financial liabilities	**5,074.9**	**50.5**	**5,125.4**
Non-financial liabilities			**18.1**
Total liabilities			**5,143.5**

At 31 March 2013

Society	Loans and receivables £m	Available for sale £m	Fair value through profit or loss £m	Total* £m
Assets				
Cash and balances with the Bank of England	392.3	-	-	392.3
Loans and advances to credit institutions	69.7	-	-	69.7
Investment securities	1,099.0	499.5	-	1,598.5
Derivative financial instruments	-	-	29.5	29.5
Loans and advances to customers	1,728.4	-	-	1,728.4
Investments	2,292.7	-	-	2,292.7
Total financial assets	5,582.1	499.5	29.5	6,111.1
Non-financial assets (restated)				38.1
Total assets				6,149.2

	Other financial liabilities £m	Fair value through profit or loss £m	Total* £m
Liabilities			
Shares	4,652.2	-	4,652.2
Amounts due to credit institutions	28.5	-	28.5
Amounts due to other customers	485.5	-	485.5
Derivative financial instruments	-	80.4	80.4
Debt securities in issue	380.8	-	380.8
Total financial liabilities	5,547.0	80.4	5,627.4
Non-financial liabilities (restated)			14.7
Total liabilities			5,642.1

* Restated due to a change in accounting policy as described in note 1.

The Group and Society financial assets and liabilities recorded at fair value through profit or loss consist of derivative financial instruments and instruments that were designated as such upon initial recognition to avoid an accounting mismatch. As discussed in notes 1 and 30, these are economically hedged but where it is not practical to apply hedge accounting.

33. Financial instruments (continued)

Fair values of financial assets and financial liabilities

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

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

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

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

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

Financial assets and financial liabilities held at amortised cost

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

At 31 March 2014

Group	**Carrying value £m**	**Fair value Level 1 £m**	**Fair value Level 2 £m**	**Fair value Level 3 £m**	**Fair value Total £m**
Financial assets					
Cash and balances with the Bank of England	**136.3**	136.3	-	-	**136.3**
Loans and advances to credit institutions	**169.4**	-	169.4	-	**169.4**
Loans and advances to customers	**4,624.0**	-	-	4,551.2	**4,551.2**
	4,929.7	**136.3**	**169.4**	**4,551.2**	**4,856.9**
Financial liabilities					
Shares	**4,235.6**	-	-	4,223.4	**4,223.4**
Amounts due to credit institutions	**38.7**	-	38.7	-	**38.7**
Amounts due to other customers	**121.0**	-	121.0	-	**121.0**
Debt securities in issue	**623.6**	532.2	83.0	-	**615.2**
	5,018.9	**532.2**	**242.7**	**4,223.4**	**4,998.3**

At 31 March 2013

Group	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	392.3	392.3	-	-	392.3
Loans and advances to credit institutions	147.1	-	147.1	-	147.1
Loans and advances to customers	4,903.5	-	-	4,809.0	4,809.0
	5,442.9	392.3	147.1	4,809.0	5,348.4
Financial liabilities					
Shares	4,652.2	-	-	4,639.8	4,639.8
Amounts due to credit institutions	28.5	-	28.5	-	28.5
Amounts due to other customers	193.0	-	193.0	-	193.0
Debt securities in issue	646.4	-	646.4	-	646.4
	5,520.1	-	867.9	4,639.8	5,507.7

At 31 March 2014

Society	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	**136.3**	136.3	-	-	**136.3**
Loans and advances to credit institutions	**57.9**	-	57.9	-	**57.9**
Investment securities	**1,078.9**	78.6	1,000.9	-	**1,079.5**
Loans and advances to customers	**1,733.1**	-	-	1,790.4	**1,790.4**
	3,006.2	**214.9**	**1,058.8**	**1,790.4**	**3,064.1**
Financial liabilities					
Shares	**4,235.6**	-	-	4,223.4	**4,223.4**
Amounts due to credit institutions	**38.7**	-	38.7	-	**38.7**
Amounts due to other customers	**723.1**	-	723.1	-	**723.1**
Debt securities in issue	**77.5**	-	77.5	-	**77.5**
	5,074.9	**-**	**839.3**	**4,223.4**	**5,062.7**

At 31 March 2013

Society	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	392.3	392.3	-	-	392.3
Loans and advances to credit institutions	69.7	-	69.7	-	69.7
Investment securities	1,099.0	-	1,099.0	-	1,099.0
Loans and advances to customers	1,728.4	-	-	1,801.6	1,801.6
	3,289.4	392.3	1,168.7	1,801.6	3,362.6
Financial liabilities					
Shares	4,652.2	-	-	4,639.8	4,639.8
Amounts due to credit institutions	28.5	-	28.5	-	28.5
Amounts due to other customers	485.5	-	485.5	-	485.5
Debt securities in issue	380.8	-	380.8	-	380.8
	5,547.0	-	894.8	4,639.8	5,534.6

33. Financial instruments (continued)

a) Loans and advances to customers
The fair value of loans and advances to customers has been calculated on an individual loan basis, taking into account factors such as impairment and interest rates. 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 2014.

b) Shares and borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2014.

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

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

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

Group	**Level 1 2014 £m**	**Level 2 2014 £m**	**Total 2014 £m**
Financial assets			
Investment securities	438.6	23.0	**461.6**
Derivative financial instruments	-	33.8	**33.8**
Loans and advances to customers	-	56.5	**56.5**
	438.6	**113.3**	**551.9**
Financial liabilities			
Derivative financial instruments	-	62.0	**62.0**
Debt securities in issue	-	53.4	**53.4**
	-	**115.4**	**115.4**

Group	Level 1 2013 £m	Level 2 2013 £m	Total 2013 £m
Financial assets			
Investment securities	499.5	-	499.5
Derivative financial instruments	-	29.5	29.5
Loans and advances to customers	-	67.6	67.6
	499.5	97.1	596.6
Financial liabilities			
Derivative financial instruments	-	99.4	99.4
Debt securities in issue	-	62.7	62.7
	-	162.1	162.1

Society	**Level 1 2014 £m**	**Level 2 2014 £m**	**Total 2014 £m**
Financial assets			
Investment securities	438.6	23.0	**461.6**
Derivative financial instruments	-	33.3	**33.3**
	438.6	**56.3**	**494.9**
Financial liabilities			
Derivative financial instruments	-	50.5	**50.5**
	-	**50.5**	**50.5**

Society	Level 1 2013 £m	Level 2 2013 £m	Total 2013 £m
Financial assets			
Investment securities	499.5	-	499.5
Derivative financial instruments	-	29.5	29.5
	499.5	29.5	529.0
Financial liabilities			
Derivative financial instruments	-	80.4	80.4
	-	80.4	80.4

34. Credit risk

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

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

- individuals (consumers – residential mortgages, including buy to let);
- businesses (non-consumers – previous commercial lending and elements of buy to let exposure). The Group ceased new commercial lending and buy to let in July 2008; and
- wholesale counterparties (including other financial institutions). Specifically within the treasury portfolio assets, where credit risk arises from the investments held by the Group in order to meet liquidity requirements and for general business purposes.

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

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

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

- The Residential Credit Committee is responsible for the monitoring of the Group's residential credit exposures and approving changes to the credit scoring systems that are utilised. In addition, the Committee reviews the type and quality of approved residential mortgage business and appraises actual arrears and repossession levels against trends and industry averages. A summary of the minutes of this committee are presented to the Risk Committee.
- The Commercial Loans Risk Committee reviews individual commercial loans at levels mandated by the Board. This may involve reviewing each case on a quarterly, half yearly or annual basis.

The 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 carrying value as shown in the tables on pages 82 to 85. 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 2014 £m**	Group 2013 £m	**Society 2014 £m**	Society 2013 £m
Prime owner occupied	**1,385.4**	1,378.2	**1,127.2**	1,080.2
Buy to let	**2,328.5**	2,458.6	**580.1**	617.4
Other	**111.6**	122.5	**2.5**	2.9
Gross balances	**3,825.5**	3,959.3	**1,709.8**	1,700.5
Impairment provisions	**(26.9)**	(31.5)	**(16.1)**	(19.8)
Fair value adjustments	**3.4**	8.8	**3.4**	8.8
	3,802.0	3,936.6	**1,697.1**	1,689.5

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

	Group 2014 £m	Group 2013 £m	**Society 2014 £m**	Society 2013 £m
East Anglia	**93.8**	95.4	**29.2**	26.8
East Midlands	**330.4**	341.3	**134.2**	135.3
Greater London	**648.8**	675.9	**201.3**	188.5
Northern Ireland	**6.6**	7.0	**1.3**	1.4
North	**115.6**	116.4	**42.2**	39.4
North West	**395.0**	403.0	**171.7**	167.8
Scotland	**150.1**	161.3	**52.3**	58.9
South East	**681.1**	691.2	**271.0**	246.4
South West	**293.8**	304.2	**126.8**	127.8
Wales	**190.0**	201.4	**95.3**	101.8
West Midlands	**681.0**	720.1	**498.9**	527.3
Yorkshire	**239.3**	242.1	**85.6**	79.1
	3,825.5	3,959.3	**1,709.8**	1,700.5

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

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
>95%	**478.7**	1,055.9	**103.0**	277.0
90% – 95%	**350.6**	413.7	**90.8**	102.8
85% – 90%	**402.2**	434.9	**118.3**	122.9
75% – 85%	**863.8**	680.4	**339.3**	300.7
50% – 75%	**1,100.9**	800.4	**586.4**	458.7
<50%	**629.3**	574.0	**472.0**	438.4
	3,825.5	3,959.3	**1,709.8**	1,700.5

The Group's average indexed loan to value at the year end date is 63.8% (2012/13: 68.2%).

The table below provides further information on the Group's residential loans and advances to customers by payment due status at 31 March 2014:

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Loans neither past due or impaired	**3,645.3**	3,769.3	**1,613.6**	1,592.2
Past due but not impaired				
Past due 1 to 3 months	**64.2**	60.8	**22.2**	28.5
Past due 3 to 6 months	**13.9**	13.0	**8.0**	7.6
Past due 6 to 12 months	**8.3**	8.9	**4.8**	5.5
Past due over 12 months	**4.3**	3.4	**2.7**	2.0
Impaired				
Past due 1 to 3 months	**38.9**	32.0	**38.2**	30.4
Past due 3 to 6 months	**16.3**	21.8	**4.2**	8.2
Past due 6 to 12 months	**10.2**	17.8	**3.9**	8.0
Past due over 12 months	**12.0**	18.7	**6.9**	12.0
Possessions	**12.1**	13.6	**5.3**	6.1
	3,825.5	3,959.3	**1,709.8**	1,700.5

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

Fair value of collateral held	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Not impaired	**6,465.8**	6,331.2	**3,381.4**	3,279.6
Impaired	**101.3**	116.5	**44.9**	57.5
Possessions	**18.1**	16.8	**7.4**	6.2
	6,585.2	6,464.5	**3,433.7**	3,343.3

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

Forbearance strategies and renegotiated loans

A range of forbearance strategies are employed in order to work with our borrowers to control arrears and, wherever possible, avoid repossession. These are set out in our Arrears and Possessions Policy. The agreed strategy will reflect the customer's individual circumstances and will be used in line with industry guidance. Our policies and practices are based on criteria which, in the judgment of senior management, indicate that repayment is likely to continue. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans.

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

34. Credit risk (continued)

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

Group	**Arrangements 2014 £m**	**Concessions 2014 £m**	**Capitalisation 2014 £m**	**Short-term interest only conversions 2014 £m**	**Term extensions 2014 £m**	**Total 2014 £m**
Loans neither past due or impaired	5.2	1.9	0.3	2.1	0.9	**10.4**
Past due but not impaired						
Past due 1 to 3 months	11.2	1.7	-	0.4	0.1	**13.4**
Past due 3 to 6 months	4.2	0.2	-	0.3	-	**4.7**
Past due 6 to 12 months	4.3	0.2	-	0.2	-	**4.7**
Past due over 12 months	1.8	-	-	0.1	-	**1.9**
Impaired						
Past due 1 to 3 months	-	0.1	-	-	-	**0.1**
Past due 3 to 6 months	4.4	0.3	-	0.1	0.2	**5.0**
Past due 6 to 12 months	3.3	0.1	-	0.1	0.1	**3.6**
Past due over 12 months	2.3	-	-	0.2	-	**2.5**
	36.7	**4.5**	**0.3**	**3.5**	**1.3**	**46.3**

Group	Arrangements 2013 £m	Concessions 2013 £m	Capitalisation 2013 £m	Short-term interest only conversions 2013 £m	Term extensions 2013 £m	Total 2013 £m
Loans neither past due or impaired	6.1	2.2	-	2.1	0.6	11.0
Past due but not impaired						
Past due 1 to 3 months	8.6	1.6	0.2	0.6	0.2	11.2
Past due 3 to 6 months	3.9	0.1	-	0.2	-	4.2
Past due 6 to 12 months	3.3	0.2	-	0.4	-	3.9
Past due over 12 months	1.0	-	-	0.1	-	1.1
Impaired						
Past due 1 to 3 months	-	0.1	-	-	-	0.1
Past due 3 to 6 months	4.3	0.7	-	0.2	0.2	5.4
Past due 6 to 12 months	5.1	0.4	-	0.2	0.1	5.8
Past due over 12 months	0.9	0.2	-	0.3	-	1.4
	33.2	5.5	0.2	4.1	1.1	44.1

Commercial assets

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Concentration by loan type				
Loans secured on commercial property	**851.4**	973.9	**15.6**	23.1
Loans to housing associations	**-**	0.1	**-**	-
Loans secured on residential property	**28.3**	36.4	**14.8**	7.3
Gross balances	**879.7**	1,010.4	**30.4**	30.4
Impairment provisions	**(58.3)**	(62.8)	**-**	-
Fair value adjustments	**57.0**	86.9	**5.6**	8.5
	878.4	1,034.5	**36.0**	38.9

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

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Healthcare and leisure	**200.9**	222.4	**-**	-
Industrial and warehouse	**38.7**	62.3	**3.9**	2.6
Office	**151.1**	178.8	**4.3**	10.8
Retail	**436.6**	484.0	**7.4**	9.7
Other	**24.1**	26.4	**-**	-
	851.4	973.9	**15.6**	23.1

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

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
East Anglia	**21.3**	24.2	**0.1**	0.4
East Midlands	**50.8**	62.6	**2.2**	1.3
Greater London	**163.6**	194.6	**17.5**	15.8
North	**47.4**	56.1	**-**	-
North West	**234.9**	247.7	**3.7**	4.4
Scotland	**18.3**	22.2	**0.9**	1.4
South East	**136.2**	163.9	**1.6**	0.8
South West	**47.5**	61.5	**0.1**	0.2
Wales	**26.8**	28.7	**0.6**	0.6
West Midlands	**75.0**	84.5	**-**	0.5
Yorkshire	**57.9**	64.4	**3.7**	5.0
	879.7	1,010.4	**30.4**	30.4

The Group's average indexed loan to value at the year end date is 123.2% (2012/13: 121.1%).

34. Credit risk (continued)

The table below provides further information on the Group's commercial assets by payment due status at 31 March 2014:

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Loans neither past due or impaired	**533.9**	622.8	**30.4**	30.4
Not past due but impaired	**198.5**	176.6	**-**	-
Past due but not impaired				
Past due up to 3 months	**-**	52.4	**-**	-
Past due 3 to 6 months	**-**	0.9	**-**	-
Past due 6 to 12 months	**9.2**	1.5	**-**	-
Past due over 12 months	**68.3**	24.6	**-**	-
Impaired				
Past due up to 3 months	**18.2**	6.4	**-**	-
Past due 3 to 6 months	**-**	9.8	**-**	-
Past due 6 to 12 months	**9.8**	17.2	**-**	-
Past due over 12 months	**41.8**	98.2	**-**	-
	879.7	1,010.4	**30.4**	30.4

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

Group

Value of collateral held	Indexed 2014 £m	Unindexed 2014 £m	Indexed 2013 £m	Unindexed 2013 £m
Not impaired	**739.2**	**711.2**	873.0	884.7
Impaired	**198.4**	**200.2**	213.8	218.7
	937.6	**911.4**	1,086.8	1,103.4

Society

Value of collateral held	Indexed 2014 £m	Unindexed 2014 £m	Indexed 2013 £m	Unindexed 2013 £m
Not impaired	**69.4**	**66.9**	48.7	51.1

The collateral held consists of properties, land or other guarantees or cash included within the above categories. The use of such collateral is in line with terms that are usual and customary to standard lending activities.

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

Group	**Arrangements 2014 £m**	**Capitalisation 2014 £m**	**Term extensions 2014 £m**	**Total 2014 £m**
Loans neither past due or impaired	-	-	55.2	**55.2**
Not past due but impaired	-	-	29.1	**29.1**
	-	**-**	**84.3**	**84.3**

Group	Arrangements 2013 £m	Capitalisation 2013 £m	Term extensions 2013 £m	Total 2013 £m
Loans neither past due or impaired	-	-	17.0	17.0
Not past due but impaired	-	10.3	0.4	10.7
Past due but not impaired				
Past due up to 3 months	3.7	-	-	3.7
Past due 3 to 6 months	-	-	0.9	0.9
Past due over 12 months	3.2	-	-	3.2
Impaired				
Past due over 12 months	11.3	-	-	11.3
	18.2	10.3	18.3	46.8

Credit risk – impairment

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

Group and Society	**2014**	2013
Probability of possession given default*	**10% to 82%**	7% to 85%
Loss emergence period	**6 to 12 months**	6 to 12 months
House price inflation		
2014/15	**4.10%**	1.50%
2015/16	**4.65%**	3.00%
2016/17	**4.80%**	4.00%
2017/18	**4.45%**	4.75%
2018/19 onwards	**4.50%**	4.75%
Forced sale discount	**10% to 39%**	11% to 33%

* Default is defined as 3 months+ arrears

34. Credit risk (continued)

Credit risk – loans and advances to credit institutions and investment securities

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

The Group determines that a treasury asset is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of 'significant or prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. At 31 March 2014 and 31 March 2013 none of the Group's treasury investments were either past due or impaired and no impairment charges were required during the year.

At 31 March 2014, 100.0% (2012/13: 100.0%) of the Group's treasury assets were invested in or deposited with counterparties rated single A or better. The Group has no exposure in its liquidity portfolio to Cyprus, Greece, Ireland, Italy, Portugal or Spain, the emerging markets or to any mortgage market other than the UK and no exposure to non-UK sovereign debt. The tables below show the relative concentrations of the Group's treasury investment portfolio:

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
Concentration by credit grading				
AAA	**352.7**	707.1	**352.7**	707.1
AA+ to AA-	**141.7**	92.8	**90.2**	41.9
A+ to A-	**214.5**	207.9	**154.5**	181.4
Building societies	**45.3**	31.1	**45.3**	31.1
Other	**13.1**	-	**1,092.0**	1,099.0
	767.3	1,038.9	**1,734.7**	2,060.5
Concentration by sector				
Financial institutions	**414.6**	278.4	**303.1**	201.0
Asset backed securities	**88.9**	169.3	**1,167.8**	1,268.3
Supranational institutions	**127.5**	198.9	**127.5**	198.9
Sovereign	**136.3**	392.3	**136.3**	392.3
	767.3	1,038.9	**1,734.7**	2,060.5
Concentration by region				
UK	**525.5**	770.7	**1,539.6**	1,840.7
Europe (excluding UK)	**85.9**	64.1	**39.2**	15.7
North America	**7.9**	-	**7.9**	-
Australasia	**20.5**	5.2	**20.5**	5.2
Supranational	**127.5**	198.9	**127.5**	198.9
	767.3	1,038.9	**1,734.7**	2,060.5

35. Market risk

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

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

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

Interest rate risk

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

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

To ensure that the overall reported interest rate risk position does not mask excessive offsetting concentrations in different periods, reprice gap concentration limits are in place to limit the maximum mismatch between assets and liabilities repricing in any one month. In conducting this analysis, general reserves, PPDS and PIBS are allocated over a range of time buckets against treasury and other assets in accordance with targets set by ALCo. The resulting 'reverse cumulative gap report' allows the income and market value sensitivity of a one basis point movement in interest rates upon the whole balance sheet to be calculated.

The Group's gap and basis mismatch positions are reported quarterly to the Prudential Regulation Authority (PRA). The levels of Group pre-tax interest rate risk exposures to a +2% parallel shift, through the reporting period were as follows:

	At 31 March 2014 £m	Average 2014 £m	High 2014 £m	Low 2014 £m
Market value	(1.8)	-	(5.1)	8.2
Net interest income	(2.4)	(2.7)	(3.3)	(2.1)

Foreign currency risk

The Group had no foreign currency exposure at 31 March 2014 (2012/13: £nil).

Equity risk

Equity risk arises from index linked savings products offered by the Group and is managed through the use of derivative contracts. The Group's only exposure to equity risk at 31 March 2014 was £148.3m (2012/13: £154.3m) of fully hedged savings products.

Derivative financial instruments

Instruments used for risk management purposes include derivative financial instruments (derivatives). Derivatives are instruments whose value is derived from one or more underlying price, rate or index (such as interest rates, exchange rates or stock market indices) but have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return, as cash flows are generally settled at a future date.

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

Types of derivatives

The principal derivatives used by the Group are 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
Equity linked investment products	Sensitivity to changes in equity indices	Equity linked swaps and options
Capped, collared or floored products	Sensitivity to changes in interest rates	Matching against appropriate cap, collar or floor derivatives or suitable assets or liabilities

36. Liquidity risk

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

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

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

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

The Group's liquidity risk is managed as follows:

- The Board has delegated authority for the management of liquidity risk to the Assets & Liabilities Committee (ALCo) within risk tolerances set out in the Liquidity and Funding Policies. ALCo meets monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC). LMC meets weekly to agree, based upon detailed customer behavioural analysis, the amount of funding required to maintain the adequacy of Group liquidity over horizons of up to three months. LMC plans cash requirements at a higher level over an extended rolling 12 month plan period;
- LMC also considers a series of daily, weekly and monthly stress tests which are designed to ensure that the Committee maintains sufficient liquidity to meet the Group's cash flow needs under any one of a number of adverse scenarios. These scenarios simulate both Group specific, general market and combined events including severe savings outflows and the unavailability of wholesale funding; and
- Under the PRA's liquidity regime, the Group is required to hold high quality liquid assets ('buffer liquidity') such as government securities, supranational bonds and cash deposited with the Bank of England. The minimum amount to be held is laid down in Individual Liquidity Guidance (ILG) issued to the Society by the PRA. The Group holds buffer and other high quality liquidity above that required by the ILG in accordance with its own day-to-day assessment of liquidity adequacy.

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

- Buffer liquidity – assesses daily the amount of high quality liquid assets necessary to meet its ILG and maintain liquidity adequacy;
- Wholesale refinancing gap – sets the maximum net wholesale outflow permitted over the following two weeks; and
- Liquidity stress tests – models the adequacy of Group liquidity under a number of different stress scenarios within the context of the Board's liquidity risk tolerance.

Further details of liquidity management are contained within the Risk Management Report on pages 21 to 24.

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

At 31 March 2014

Group	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Assets							
Cash and balances with the Bank of England	128.1	-	-	-	-	8.2	**136.3**
Loans and advances to credit institutions	67.2	102.2	-	-	-	-	**169.4**
Investment securities	-	73.8	135.3	234.9	17.6	-	**461.6**
Derivative financial instruments	-	2.9	9.3	19.2	2.4	-	**33.8**
Loans and advances to customers	-	267.9	93.7	642.0	3,676.9	-	**4,680.5**
Deferred tax assets	-	-	-	-	-	23.8	**23.8**
Trade and other receivables	-	-	-	-	-	2.8	**2.8**
Intangible assets	-	-	-	-	-	8.7	**8.7**
Investment properties	-	-	-	-	-	115.2	**115.2**
Property, plant and equipment	-	-	-	-	-	18.4	**18.4**
	195.3	**446.8**	**238.3**	**896.1**	**3,696.9**	**177.1**	**5,650.5**
Liabilities and equity							
Shares	2,520.5	484.2	361.8	869.1	-	-	**4,235.6**
Amounts due to credit institutions	-	38.7	-	-	-	-	**38.7**
Amounts due to other customers	14.0	54.9	51.1	1.0	-	-	**121.0**
Derivative financial instruments	-	-	0.2	25.0	36.8	-	**62.0**
Debt securities in issue	-	11.6	11.5	505.8	148.1	-	**677.0**
Deferred tax liabilities	-	-	-	-	-	3.6	**3.6**
Trade and other payables	-	-	-	-	-	13.6	**13.6**
Provisions for liabilities	-	-	-	-	-	5.1	**5.1**
Retirement benefit obligations	-	-	-	-	-	1.4	**1.4**
Profit participating deferred shares	-	-	-	-	-	174.7	**174.7**
Subscribed capital	-	-	-	-	-	74.9	**74.9**
General reserves	-	-	-	-	-	234.9	**234.9**
Revaluation reserve	-	-	-	-	-	3.4	**3.4**
Available for sale reserve	-	-	-	-	-	4.4	**4.4**
Cash flow hedging reserve	-	-	-	-	-	0.2	**0.2**
	2,534.5	**589.4**	**424.6**	**1,400.9**	**184.9**	**516.2**	**5,650.5**

At 31 March 2014

Society	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Assets							
Cash and balances with the Bank of England	128.1	-	-	-	-	8.2	**136.3**
Loans and advances to credit institutions	2.4	55.5	-	-	-	-	**57.9**
Investment securities	-	73.8	135.3	397.6	933.8	-	**1,540.5**
Derivative financial instruments	-	2.9	9.3	19.2	1.9	-	**33.3**
Loans and advances to customers	-	17.2	36.2	127.0	1,552.7	-	**1,733.1**
Deferred tax assets	-	-	-	-	-	12.2	**12.2**
Trade and other receivables	-	-	-	-	-	2.0	**2.0**
Investments	-	-	-	-	-	2,088.5	**2,088.5**
Intangible assets	-	-	-	-	-	8.1	**8.1**
Property, plant and equipment	-	-	-	-	-	18.4	**18.4**
	130.5	**149.4**	**180.8**	**543.8**	**2,488.4**	**2,137.4**	**5,630.3**
Liabilities and equity							
Shares	2,520.5	484.2	361.8	869.1	-	-	**4,235.6**
Amounts due to credit institutions	-	38.7	-	-	-	-	**38.7**
Amounts due to other customers	15.9	56.2	58.5	60.7	531.8	-	**723.1**
Derivative financial instruments	-	-	-	22.4	28.1	-	**50.5**
Debt securities in issue	-	11.6	11.5	54.4	-	-	**77.5**
Deferred tax liabilities	-	-	-	-	-	0.5	**0.5**
Trade and other payables	-	-	-	-	-	12.3	**12.3**
Provisions for liabilities	-	-	-	-	-	3.9	**3.9**
Retirement benefit obligations	-	-	-	-	-	1.4	**1.4**
Profit participating deferred shares	-	-	-	-	-	174.7	**174.7**
Subscribed capital	-	-	-	-	-	74.9	**74.9**
General reserves	-	-	-	-	-	229.4	**229.4**
Revaluation reserve	-	-	-	-	-	3.4	**3.4**
Available for sale reserve	-	-	-	-	-	4.4	**4.4**
	2,536.4	**590.7**	**431.8**	**1,006.6**	**559.9**	**504.9**	**5,630.3**

36. Liquidity risk (continued)

At 31 March 2013

Group	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity* £m	Total* £m
Assets							
Cash and balances with the Bank of England	386.8	-	-	-	-	5.5	392.3
Loans and advances to credit institutions	28.7	118.3	0.1	-	-	-	147.1
Investment securities	-	16.5	81.6	299.9	101.5	-	499.5
Derivative financial instruments	-	2.1	-	24.4	3.0	-	29.5
Loans and advances to customers	-	143.4	291.9	596.5	3,939.3	-	4,971.1
Deferred tax assets	-	-	-	-	-	23.2	23.2
Trade and other receivables	-	-	-	-	-	2.8	2.8
Intangible assets	-	-	-	-	-	7.9	7.9
Investment properties	-	-	-	-	-	112.5	112.5
Property, plant and equipment	-	-	-	-	-	16.5	16.5
Retirement benefit assets	-	-	-	-	-	0.4	0.4
	415.5	280.3	373.6	920.8	4,043.8	168.8	6,202.8
Liabilities and equity							
Shares	3,541.9	410.0	245.6	454.7	-	-	4,652.2
Amounts due to credit institutions	-	27.0	1.5	-	-	-	28.5
Amounts due to other customers	16.8	76.9	94.1	5.2	-	-	193.0
Derivative financial instruments	-	-	1.0	40.7	57.7	-	99.4
Debt securities in issue	-	195.0	119.8	217.2	177.1	-	709.1
Deferred tax liabilities	-	-	-	-	-	4.3	4.3
Trade and other payables	-	-	-	-	-	12.5	12.5
Provisions for liabilities	-	-	-	-	-	3.2	3.2
Profit participating deferred shares	-	-	-	-	-	174.4	174.4
Subscribed capital	-	-	-	-	-	74.9	74.9
General reserves	-	-	-	-	-	238.2	238.2
Revaluation reserve	-	-	-	-	-	3.7	3.7
Available for sale reserve	-	-	-	-	-	9.4	9.4
	3,558.7	708.9	462.0	717.8	234.8	520.6	6,202.8

* Restated due to a change in accounting policy as described in note 1.

At 31 March 2013

Society	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity* £m	Total* £m
Assets							
Cash and balances with the Bank of England	386.8	-	-	-	-	5.5	392.3
Loans and advances to credit institutions	(0.3)	69.9	0.1	-	-	-	69.7
Investment securities	-	16.5	81.6	446.4	1,054.0	-	1,598.5
Derivative financial instruments	-	2.1	-	24.4	3.0	-	29.5
Loans and advances to customers	-	4.5	19.3	167.5	1,537.1	-	1,728.4
Current tax assets	-	-	-	-	-	0.2	0.2
Deferred tax assets	-	-	-	-	-	11.4	11.4
Trade and other receivables	-	-	-	-	-	2.3	2.3
Investments	-	-	-	-	-	2,292.7	2,292.7
Intangible assets	-	-	-	-	-	7.3	7.3
Property, plant and equipment	-	-	-	-	-	16.5	16.5
Retirement benefit assets	-	-	-	-	-	0.4	0.4
	386.5	93.0	101.0	638.3	2,594.1	2,336.3	6,149.2
Liabilities and equity							
Shares	3,541.9	410.0	245.6	454.7	-	-	4,652.2
Amounts due to credit institutions	-	27.0	1.5	-	-	-	28.5
Amounts due to other customers	18.5	77.0	95.4	22.2	272.4	-	485.5
Derivative financial instruments	-	-	1.0	36.1	43.3	-	80.4
Debt securities in issue	-	195.0	119.8	66.0	-	-	380.8
Deferred tax liabilities	-	-	-	-	-	0.4	0.4
Trade and other payables	-	-	-	-	-	11.1	11.1
Provisions for liabilities	-	-	-	-	-	3.2	3.2
Profit participating deferred shares	-	-	-	-	-	174.4	174.4
Subscribed capital	-	-	-	-	-	74.9	74.9
General reserves	-	-	-	-	-	244.7	244.7
Revaluation reserve	-	-	-	-	-	3.7	3.7
Available for sale reserve	-	-	-	-	-	9.4	9.4
	3,560.4	709.0	463.3	579.0	315.7	521.8	6,149.2

* Restated due to a change in accounting policy as described in note 1.

36. Liquidity risk (continued)

The significant development of liquidity stress testing and forecast models has continued throughout 2014 due to economic and market conditions. A wide range of scenarios is considered including mild and severe distresses, credit downgrades and a total closure of the wholesale market. An analysis of the liquidity portfolio is set out in the table below:

Group	2014 £m	2014 %	2013 £m	2013 %
Cash in hand and balances with the Bank of England	136.3	17.8	392.3	37.8
Cash with banks and building societies	169.4	22.1	147.1	14.2
Certificates of deposit	23.0	3.0	-	-
Fixed rate bonds	201.5	26.2	244.8	23.5
Floating rate notes	84.0	10.9	85.4	8.2
Residential mortgage backed securities	153.1	20.0	169.3	16.3
Total	**767.3**	**100.0**	1,038.9	100.0

During the year the liquidity balances have decreased from £1,038.9m at 31 March 2013 to £767.3m at 31 March 2014. Expressed as a proportion of combined shares and deposits liabilities, this represents a decrease from 19.77% to 17.15%.

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

At 31 March 2014

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,822.7	285.5	152.0	-	**4,260.2**
Amounts owed to credit institutions, other customers and holders of debt securities	85.9	63.1	58.9	74.9	**282.8**
Derivative financial instruments	8.5	25.1	91.4	183.9	**308.9**
	3,917.1	**373.7**	**302.3**	**258.8**	**4,851.9**

At 31 March 2013

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,998.5	246.4	436.3	-	4,681.2
Amounts owed to credit institutions, other customers and holders of debt securities	284.5	216.9	72.4	74.9	648.7
Derivative financial instruments	7.5	22.2	100.1	221.4	351.2
	4,290.5	485.5	608.8	296.3	5,681.1

At 31 March 2014

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,822.7	285.5	152.0	-	**4,260.2**
Amounts owed to credit institutions, other customers and holders of debt securities	85.9	63.1	58.9	74.9	**282.8**
Derivative financial instruments	6.3	18.7	56.7	40.5	**122.2**
	3,914.9	**367.3**	**267.6**	**115.4**	**4,665.2**

At 31 March 2013

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,998.5	246.4	436.3	-	4,681.2
Amounts owed to credit institutions, other customers and holders of debt securities	284.5	216.9	72.4	74.9	648.7
Derivative financial instruments	4.9	14.3	58.2	27.0	104.4
	4,287.9	477.6	566.9	101.9	5,434.3

For each material class of financial liability a maturity analysis is provided on pages 94 to 97.

37. Financial commitments

	Group 2014 £m	Group 2013 £m	Society 2014 £m	Society 2013 £m
a) Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	**1.2**	0.9	**1.2**	0.9
b) Leasing commitments				
Total commitments under non-cancellable leases				
Rental commitments arising:				
Within one year	**0.7**	0.5	**0.7**	0.5
Later than one year and not later than five years	**2.0**	1.7	**2.0**	1.7
After five years	**0.5**	0.6	**0.5**	0.6
	3.2	2.8	**3.2**	2.8
c) Loan commitments				
Undrawn loan facilities	**61.6**	25.5	**60.5**	18.3

38. Related party transactions

i) Subsidiary, parent and ultimate controlling party

The subsidiaries of the Society (the ultimate controlling party) are detailed in note 16.

ii) Key management personnel

The Board considers key management personnel to comprise Executive and Non-Executive Directors. Details of Directors' emoluments are disclosed in note 9.

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

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

Group and Society	No. of key management personnel 2014	Amount in respect of key management personnel and their close family members 2014 £000	No. of key management personnel 2013	Amount in respect of key management personnel and their close family members 2013 £000
Savings balances at 31 March	**9**	**92**	10	112
Interest payable on savings balances	**10**	**2**	10	3

Mortgage loans and savings are available to key management personnel and members of their close family at normal commercial terms. At 31 March 2014, there were no mortgage loans (2012/13: nil) outstanding to Directors and their connected persons, amounting to £nil (2012/13: £nil).

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

iv) Contributions to pension schemes

During the year the Group paid contributions of £4.7m (2012/13: £2.1m) to defined benefit pension schemes, which are classified as related parties.

The Society has granted the Trustees of the defined benefit pension scheme a priority charge over residential mortgage backed securities with a carrying value of £14.1m at 31 March 2014 (2012/13: £18.4m). The cash flows from these assets are used as contributions by the Society to the pension scheme.

v) Transactions with Group companies

	Interest paid to Society 2014 £m	Interest paid to Society 2013 £m
Insignia Finance Limited	**0.7**	0.8
Kenrick No. 1 Plc	**0.3**	-
Kenrick No. 2 Plc	**0.3**	-
Millinet Limited	**-**	0.1
West Bromwich Commercial Limited	**31.6**	44.0
West Bromwich Homes Limited	**3.1**	3.2
West Bromwich Mortgage Company Limited	**32.6**	29.2
	68.6	77.3

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

	Loans owed by/ (to) subsidiaries 2014 £m	Loans owed by/ (to) subsidiaries 2013 £m
Insignia Finance Limited	**23.5**	28.4
Kenrick No. 1 Plc	**18.3**	17.5
Kenrick No. 2 Plc	**22.9**	-
Millinet Limited - dissolved	**-**	2.9
WBBS Computer Finance Limited - dormant	**(0.2)**	(0.2)
West Bromwich Commercial Limited	**753.6**	872.7
West Bromwich Financial Planning Limited	**(0.7)**	(0.9)
West Bromwich Homes Limited	**91.0**	92.2
West Bromwich Mortgage Company Limited	**1,179.5**	1,279.5
	2,087.9	2,292.1

Transactions and balances between Group companies are on normal commercial terms and conditions.
The loans owed by West Bromwich Commercial Limited are net of impairment provisions of £9.9m (2012/13: £nil).

39. Business segments

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

The Group has three main business segments:

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

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

There were no changes to reportable segments during the year.

39. Business segments (continued)

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

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

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

Income Statements

for the year ended 31 March 2014

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income	134.4	24.3	-	(22.8)	**135.9**
Interest expense and similar charges	(85.4)	(21.9)	(3.1)	22.7	**(87.7)**
Net interest receivable/(expense)	**49.0**	**2.4**	**(3.1)**	**(0.1)**	**48.2**
Fees and commissions receivable	5.4	0.3	-	-	**5.7**
Other operating (expense)/income	(0.3)	1.1	3.9	(1.1)	**3.6**
Total operating income/(expense)	**54.1**	**3.8**	**0.8**	**(1.2)**	**57.5**
Fair value gains on financial instruments	4.6	-	-	-	**4.6**
Net realised losses	(0.2)	-	-	-	**(0.2)**
Total income/(expense)	**58.5**	**3.8**	**0.8**	**(1.2)**	**61.9**
Administrative expenses	(37.8)	(2.6)	(0.2)	-	**(40.6)**
Depreciation and amortisation	(4.4)	-	-	-	**(4.4)**
Operating profit/(loss) before impairments, provisions and revaluation losses	**16.3**	**1.2**	**0.6**	**(1.2)**	**16.9**
Gains on investment properties	-	-	5.1	-	**5.1**
Impairment on loans and advances	(2.7)	(10.9)	-	-	**(13.6)**
Provisions for liabilities	(6.3)	-	-	-	**(6.3)**
Profit/(Loss) before tax	**7.3**	**(9.7)**	**5.7**	**(1.2)**	**2.1**
Taxation	0.1	(0.8)	(0.4)	-	**(1.1)**
Profit/(Loss) for the financial year	**7.4**	**(10.5)**	**5.3**	**(1.2)**	**1.0**

Statements of Financial Position

at 31 March 2014

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	**5,526.9**	**863.6**	**120.6**	**(860.6)**	**5,650.5**
Total liabilities	**4,995.7**	**932.5**	**93.7**	**(863.9)**	**5,158.0**
Capital expenditure	**6.9**	**-**	**-**	**-**	**6.9**

Income Statements

for the year ended 31 March 2013

	Retail* £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group* £m
Interest receivable and similar income	165.9	28.8	-	(33.6)	161.1
Interest expense and similar charges	(124.1)	(33.6)	(3.2)	33.5	(127.4)
Net interest receivable/(expense)	41.8	(4.8)	(3.2)	(0.1)	33.7
Fees and commissions receivable	5.5	0.1	-	-	5.6
Other operating income	0.3	-	4.0	-	4.3
Total operating income/(expense)	47.6	(4.7)	0.8	(0.1)	43.6
Fair value losses on financial instruments	(1.7)	-	-	-	(1.7)
Net realised profits	7.3	-	-	-	7.3
Total income/(expense)	53.2	(4.7)	0.8	(0.1)	49.2
Administrative expenses	(36.7)	(2.9)	(0.1)	0.4	(39.3)
Depreciation and amortisation	(5.6)	-	-	-	(5.6)
Operating profit/(loss) before impairments, provisions and revaluation losses	10.9	(7.6)	0.7	0.3	4.3
Losses on investment properties	-	-	(0.2)	-	(0.2)
Impairment on loans and advances	(4.1)	(6.7)	-	-	(10.8)
Provisions for liabilities	(2.4)	-	-	-	(2.4)
Profit/(Loss) before tax	4.4	(14.3)	0.5	0.3	(9.1)
Taxation	4.4	(0.3)	0.1	0.2	4.4
Profit/(Loss) for the financial year	8.8	(14.6)	0.6	0.5	(4.7)

Statements of Financial Position

at 31 March 2013

	Retail* £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group* £m
Total assets	6,049.8	1,000.0	118.0	(965.0)	6,202.8
Total liabilities	5,504.8	1,068.7	96.4	(967.7)	5,702.2
Capital expenditure	5.1	-	-	-	5.1

* Restated due to a change in accounting policy as described in note 1.

40. Capital management

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

The Group's capital structure is shown in the table below. For details of the Group's capital management processes, see the Risk Management Report on pages 21 to 24.

At 31 March

	Notes	**Transitional CRD IV rules 2014 £m**	**Full implementation of CRD IV 2014 £m**	Transitional CRD IV rules 2013 £m	Full implementation of CRD IV 2013 £m
Common Equity Tier 1 capital					
General reserves		**234.9**	**234.9**	238.2	238.2
Revaluation reserve		**3.4**	**3.4**	3.7	3.7
Available for sale reserve (AFS)		**4.4**	**4.4**	9.4	9.4
Cash flow hedging reserve		**0.2**	**0.2**	-	-
Profit participating deferred shares		**174.7**	**174.7**	174.4	174.4
Common Equity Tier 1 prior to regulatory adjustments		**417.6**	**417.6**	425.7	425.7
Regulatory adjustments:					
Unrealised reserves on available for sale assets	1	**(4.4)**	**-**	(9.4)	-
Unrealised reserves on investment properties	2	**(22.4)**	**-**	(18.9)	-
Cash flow hedging reserve	3	**(0.2)**	**(0.2)**	-	-
Intangible assets and goodwill	4	**(8.7)**	**(8.7)**	(7.9)	(7.9)
Deferred tax asset relating to operating losses	5	**(17.5)**	**(17.5)**	(16.7)	(16.7)
Other deductions		**(1.2)**	**(1.2)**	(1.7)	(1.7)
Common Equity Tier 1 capital		**363.2**	**390.0**	371.1	399.4
Additional Tier 1 capital					
Permanent interest bearing shares (PIBS)		**74.9**	**74.9**	74.9	74.9
Regulatory adjustments:					
Amortisation of PIBS under transitional rules	6	**(15.0)**	**(74.9)**	(15.0)	(74.9)
Total Tier 1 capital		**423.1**	**390.0**	431.0	399.4
Tier 2 capital					
Collective provision		**15.7**	**15.7**	15.1	15.1
Other deductions		**(0.6)**	**(0.6)**	(0.1)	(0.1)
Total capital		**438.2**	**405.1**	446.0	414.4

Notes

1. Under transitional rules unrealised gains within the AFS reserve are not included in capital for 2014. These amounts are included from 1 January 2015.
2. Under transitional rules revaluation gains relating to investment properties, which are part of general reserves, are not included in capital. These amounts are included from 1 January 2015.
3. The cash flow hedging reserve is not included in capital.
4. A full deduction is made from CET1 for intangible assets and goodwill.
5. Under the rules of CRD IV (transitional and on full implementation) deferred tax assets relating to previous operating losses are deducted from capital.
6. Under the transitional rules applicable to the current year, 20% of the value of PIBS is deducted from Tier 1 capital. For comparative purposes the same adjustment has been applied to the 2013 figures. Under the transitional rules the amortisation deduction is increased by 10% per annum every 1 January through to 2021, with the final 10% deducted on 5 April 2021, the earliest call date for the PIBS.

Annual Business Statement for the year ended 31 March 2014

1. Statutory percentages

	2014 %	Statutory limit %
Lending limit	**19.1**	25.0
Funding limit	**5.3**	50.0

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

The lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group plus allowance for losses on loans and advances less liquid assets, investment properties, intangible assets and property, plant and equipment as shown in the Group Statement of Financial Position.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

Securitised assets and related liabilities are excluded from the lending limit and funding limit calculations in line with the Building Societies Act 1986 as updated by the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

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

2. Other percentages

	2014 %	2013* %
As a percentage of shares and borrowings:		
Gross capital	**11.01**	9.53
Free capital	**8.18**	7.21
Liquid assets	**17.15**	19.77
As a percentage of mean total assets:		
Profit/(Loss) for the financial year	**0.02**	(0.07)
Management expenses	**0.76**	0.66

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

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue excluding non-recourse finance, in each case including accrued interest.
- 'Gross capital' represents the aggregate of general reserves, available for sale reserve, revaluation reserve, cash flow hedging reserve, subscribed capital and profit participating deferred shares.
- 'Free capital' represents the aggregate of gross capital and collective impairment provisions for losses on loans and advances less intangible assets, investment properties and property, plant and equipment.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash and balances with the Bank of England, loans and advances to credit institutions and investment securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

* Restated due to a change in accounting policy as described in note 1.

Information relating to Directors' and Officers' other directorships and interests at 31 March 2014

Name, qualification and date of birth	Role	Date of appointment	Other directorships and interests
John Ainley LLB (Hons), CCIPD 28 September 1956	Non-Executive Director	18 May 2011	Trustee of Bloomsbury Festival The Leaders' Coach Limited
Claire Hafner MA, ACA 24 June 1959	Non-Executive Director	1 September 2011	LINK Interchange Network Limited OneVu Limited Vocalink Limited Vocalink Holdings Limited Voca Limited Voca Holdings Limited Immediate Payments Limited
Mark Nicholls MA (Cantab), MBA 5 May 1949	Chairman	1 January 2010	Burcot House Management Limited Northern Investors Company PLC Rathbone Brothers Plc Rathbone Investment Management Ltd
Mark Preston BA (Hons), ACIB 11 February 1960	Non-Executive Director	18 May 2011	Chair of Development Council of Opportunity International UK City Index Group Limited City Index (Holdings) Limited
Martin Ritchley FCA, FCIB, Hon DBA (Coventry) 1 July 1946	Deputy Chairman and Senior Independent Director	1 September 2009	The ARC Addington Fund Royal Shakespeare Theatre Trust
Richard Sommers MA (Oxon), ACIB 4 September 1956	Non-Executive Director	1 October 2009	Treasurer and Fellow of Lady Margaret Hall
Colin Walklin BSc, FCA 9 May 1954	Non-Executive Director	20 July 2011	Aida Capital Limited SLTM Limited Standard Life Investments (Corporate Funds) Limited Standard Life Investments (Holdings) Limited Standard Life Investments Limited Standard Life Portfolio Investments Limited
Mark Gibbard BSc, FCA, MCT 31 August 1961	Group Finance Director	16 February 2011	
Jonathan Westhoff BA (Hons) Financial Services, FCMA, CGMA, ACIB 11 July 1964	Chief Executive	5 May 2009	Millinet Limited West Bromwich Commercial Limited West Bromwich Homes Limited WBBS Computer Finance Limited

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

Service contracts

The Society's policy in relation to the duration of contracts for the Executive Directors is that their contract would normally continue until termination by either party, subject to the required notice or until retirement. The service contract is terminable with 12 months' notice if given by the Society or six months' notice if given by the Director. Jonathan Westhoff entered into his contract as Chief Executive on 25 May 2011 and Mark Gibbard entered into his service contract on 23 November 2010, on this basis.

For further details of the Executive Directors' service contracts, see the Directors' Remuneration Report on pages 36 to 41.

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

Senior management	Role	Directorships and interests
Peter Collingridge BSc/MEng (Hons)	Divisional Director, IT	
Andrew Conroy BSc (Hons), ACA	Divisional Director, Finance	Central Processing Limited CL Mortgages Limited Millinet Limited Trustee of Saltmine Trust WBBS Computer Finance Limited West Bromwich Commercial Limited West Bromwich Mortgage Company Limited
Paul Field CMS	Divisional Director, Operations	CL Mortgages Limited Insignia Finance Limited West Bromwich Homes Limited West Bromwich Mortgage Company Limited White Label Lending Limited
Manjit Hayre	Divisional Director, Credit Risk	
Richard Hopwood	Sales & Marketing Director	West Bromwich Financial Planning Limited
Ian Kilmartin BA (Hons), MSc	Divisional Director, Business Transformation and Change	
Thomas Lynch MA, ACA	Divisional Director, Treasury & Capital Management	Central Processing Limited CL Mortgages Limited Sandwell Commercial Finance No. 1 Plc Sandwell Commercial Finance No. 2 Plc Sandwell Finance Holdings Limited WBBS Computer Finance Limited West Bromwich Financial Planning Limited West Bromwich Mortgage Company Limited
John McErlean MIIA, FIIA	Head of Internal Audit	
Neil Noakes	Group Secretary	Insignia Finance Limited West Bromwich Homes Limited White Label Lending Limited
Jacqui Randle BSc, Chartered FCIPD	Head of Human Resources	WBBS (SRS) Limited
James Wright BSc, ACIB, CIM Dip	Divisional Director, Marketing & E Commerce	

Glossary

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

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

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

Basel lll – In December 2010, the Basel Committee on Banking Supervision issued the Basel lll rules text, which presents the details of the strengthened global regulatory standards on bank capital adequacy and liquidity. The requirements, embedded using CRD IV, became effective from 1 January 2014.

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

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

Commercial mortgage backed securities (CMBS) – Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Common Equity Tier 1 capital (CET1) – CET1 capital comprises internally generated capital from general reserves and other reserves less intangible assets, goodwill and other regulatory adjustments.

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

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

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

Capital Requirements Regulation and Capital Requirements Directive IV (CRD IV) – CRD IV is the legislative package made up of the Capital Requirements Regulation and the Capital Requirements Directive to implement the Basel III agreement.

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

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

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

Fair value – Fair value is the price that would be received to sell an asset or paid to transfer a liabilty in an orderly transaction between market participants at the measurement date.

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

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

Funding limit – Measures the proportion of shares and borrowings not in the form of shares held by individuals excluding non-recourse finance. The calculation of the funding limit is explained in the Annual Business Statement.

Funding for Lending Scheme (FLS) – A scheme launched by the Bank of England and HM Treasury providing funding to incentivise banks and building societies to boost lending to the economy.

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

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

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

Individual Liquidity Adequacy Assessment (ILAA) – The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.

Individually/collectively assessed – At each Statement of Financial Position date the Group assesses whether or not there is objective evidence that individual financial assets are impaired. If no objective evidence of impairment exists for an individually assessed financial asset, it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. A collective provision is made against a group of financial assets where there is evidence that credit losses have been incurred, but not individually identified, at the reporting date.

Interest rate risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

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

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

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

Leverage ratio – Tier 1 capital as a percentage of total exposures which include on and off balance sheet assets after netting derivatives.

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

Liquidity coverage ratio (LCR) – A Basel III measure to ensure sufficient highly liquid assets cover expected net cash outflows under a 30-day liquidity stress scenario. A minimum of 80% will apply from 1 January 2015.

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

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

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

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

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

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

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

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

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

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

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

Net stable funding ratio (NSFR) – A ratio calculated as the amount of available stable funding against the amount of required stable funding. This measure will be taken over an observation period of one year. The minimum requirement will apply from 1 January 2018.

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 34 member countries including (but not limited to) key European countries, the United States, Canada and Japan.

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

Other income – The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products, other insurances and property rental income).

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

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

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

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

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

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

Glossary (continued)

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

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

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

Securitisation – A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of new securities. A company transfers these assets to a special purpose entity which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities.

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

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

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

Tier 1 capital – An element of regulatory capital and measure of financial strength, comprising Common Equity Tier 1 capital and Additional Tier 1 capital. Additional Tier 1 capital is not deemed to be fully loss absorbing and can only be included in capital under the transitional arrangements of CRD IV.

Tier 2 capital – An element of regulatory capital, comprising the Group's collective impairment allowance and certain regulatory deductions made for the purposes of assessing capital adequacy.

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

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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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www.westbrom.co.uk

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