West Bromwich

Building Society

Basel II Pillar 3 Disclosures for the year ended 31st March 2009

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1. Overview and Scope

Background
The Capital Requirements Directive (Basel II), which was introduced on 1 January 2007, set out new disclosure requirements for banks and building societies. The disclosure requirements (Pillar 3) aim to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) and aim to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes of the firm.

Basis of Disclosures
The disclosures in this report have been prepared for the West Bromwich Building Society. These disclosures meet the Pillar 3 quantitative and qualitative disclosure requirements.

Frequency
This report is made on an annual basis as at the Accounting Reference Date (ARD), i.e. as at 31 March, and will be published within four months of the ARD. The Society will aim, however, to make the disclosures shortly after the publication of the Annual Report and Accounts.

Location and verification
This report will be published on the West Bromwich Building Society website (www.westbrom.co.uk) and except where the disclosure is common to that contained in the Annual Report and Accounts, these disclosures are not externally audited.

The Pillar 3 disclosures have been prepared purely for explanation of the basis on which the Group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

Scope
For accounting purposes, the West Bromwich Building Society's consolidation group comprises the Society itself and a number of subsidiary and quasi subsidiary entities ('The Group'). The main subsidiaries are:

West Bromwich Homes Limited*
West Bromwich Commercial Limited*
West Bromwich Mortgage Company Limited*
Insignia Finance Limited
MortgageForce Limited

* indicates subsidiaries that are within the solo consolidated group for prudential purposes.

Full details of the principal subsidiary undertakings are included in Note 15 to the Annual Report and Accounts for the year ended 31 March 2009.

For prudential and Pillar 3 reporting purposes, the investment in the Special Purpose Vehicles (SPVs) is deducted from capital resources.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities between the parent undertaking and its subsidiary undertakings.

2. Risk Management Objectives and Policies

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

The main risks we manage are:
- Credit risk
- Market risk, including Interest Rate risk
- Liquidity risk
- Operational risk and
- Concentration risk

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

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

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

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

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

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

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

Additionally, credit risk can occur within treasury transactions (used to meet liquidity requirements and those hedging instruments used for interest rate risk purposes). This type of credit risk is managed by the Assets and Liabilities Management (ALM) Team, which is part of the Group Risk division. On a daily basis, ALM monitors exposures to counterparties and countries, and ensures the Group is operating within its Board approved limits. The ALCo and the Board reviews the Treasury Policy and limits, with reports presented to ALCo on a monthly basis confirming compliance with such policy limits.

2. Risk Management Objectives and Policies (continued)

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

Market Risk

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

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

Interest Rate Risk

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

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

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

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

Liquidity Risk

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

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

- To cover cash flow imbalances
- To cover fluctuations in funding
- To retain full public confidence in the solvency of the Group
- To be in a position to meet its financial obligations

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

2. Risk Management Objectives and Policies (continued)

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

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

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

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

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

Investment	31.03.09	30.09.08	31.03.08
Short term (up to 3 months)	19%	74%	77%
Gilts/T.bills/Government Guaranteed Debt	61%	5%	0%
Longer Term investments (over 3 months)	8%	8%	10%
'AAA' UK Prime Residential Mortgage Backed Securities	12%	12%	12%
Other	Negligible	1%	1%

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

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

Operational Risk

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

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

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

The Group has adopted The Standardised Approach (TSA) to operational risk for calculating Pillar 1 capital requirements, and applies a percentage to the average gross income within each business line over the preceding 3 years.

2. Risk Management Objectives and Policies (continued)

Concentration Risk

Concentration risk is the risk arising from lack of diversification in the Group's business. As a building society, the business of the Group is by nature concentrated in residential mortgage lending funded by retail savings. Historically the residential loans have been predominantly concentrated in the heartlands of the West Midlands as the branch network was traditionally the main source of business. More recently, mortgage lending has been expanded to other parts of England, Wales, Scotland and Northern Ireland as greater reliance was placed on the intermediary and direct (telephony) mortgage market. Whilst this has removed much of the historic regional bias, the Society has returned to a strategy of focusing on originating high quality prime residential mortgages through the branch network. The Group currently has no international mortgage exposures. Geographical exposure is monitored by the BCCo.

It is also recognised by the Group that there is some concentration in Buy to Let loans within the lending portfolio. Although the Group has found that Buy to Let lending continues to experience arrears rates that are lower than traditional residential mortgages the Group has decided to hold more capital to offset the possibility of greater risk. Arrears performance is closely monitored and reported to the Group's Board on a monthly basis.

3. Capital Resources

The table below summarises the composition of regulatory capital for the Group as at 31 March 2009. During the year ended 31 March 2009, the individual entities within the Group and the Group itself complied with all of the externally imposed capital requirements to which they are subject.

	Notes	31.3.09 £m	31.3.08 £m
Tier 1			
Retained Earnings and other reserves	1	**278.3**	326.3
Permanent Interest Bearing Shares (PIBS)	2	**74.9**	74.9
Intangible assets	3	**(11.1)**	(11.5)
Investments in non-solo consolidated subsidiaries/SPV's	4	**(5.8)**	(16.9)
Total Tier 1 Capital		**336.3**	372.8
Tier 2			
Revaluation reserve		**4.6**	6.1
Subordinated Debt	5	**184.3**	184.3
Collective Provisions		**21.0**	3.0
Investments in non-solo consolidated subsidiaries/SPV's	4	**(5.9)**	(17.0)
Total Tier 2 Capital		**204.0**	176.4
Total Capital Available (own funds)		**540.3**	549.2

Notes:

1. Retained earnings and other reserves exclude gains or losses on cashflow hedges and available-for-sale assets.
2. The Group currently has no innovative Tier 1 instruments. PIBS are unsecured deferred shares and rank behind the claims of all subordinated noteholders, depositors, creditors and investing members of the Society. Further details about PIBS are provided in Note 28 to the 2009 Annual Report and Accounts.
3. Intangible assets include capitalised software goodwill and brand names.
4. Subordinated and start-up loans to securitisation vehicles are deducted equally from Tier 1 and Tier 2 capital.
5. Subordinated debt is unsecured and ranks behind the claims of all depositors, creditors and investing members (other than holders of PIBS) of the Society. More details of the subordinated notes are included in Note 24 to the 2009 Annual Report and Accounts. The capital value includes accrued interest of £2.1m (2008: £2.1m) and is calculated under UK GAAP rather than IFRS.
6. The figures as at 31 March 2008 have been restated. For further information see Note 1 to the 2009 Annual Report and Accounts concerning prior year adjustment.

The Group has not had any defaults of principal, interest or other breaches with respect to any liabilities during the period.

Post Balance Sheet Event affecting Capital Resources

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

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

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

3. Capital Resources (continued)

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

- With respect to the interest payment date of 5 October 2009, to pay an interest payment which reflects the level of accrued interest (at an annualised rate of 6.15%) from 5 April 2009 to the date of the completion of the Capital Exchange plus, with respect to the period from completion to 5 October 2009, such amount as represents, when annualised, up to 1.5% of the outstanding principal amount of the PIBS
- With respect to the interest payment date of 5 April 2010, to pay an interest payment which represents, when annualised, up to 1.5% of the outstanding principal amount of the PIBS
- With respect to subsequent interest payments, as a condition of the PPDS, the Society has undertaken to pay an amount which, when annualised, represents the lower of: 6.15% of the outstanding principal amount of the PIBS and the dividend yield attributable to the PPDS with respect to the prior financial year ending 31 March

4. Capital Adequacy

In order to protect the solvency of the Group, internal capital is held to provide a cushion for unexpected losses. In assessing the adequacy of its capital, the Group considers its risk appetite, the material risks to which the Group is exposed and the appropriate management strategies for each of the Group's material risks, including whether or not capital provides an appropriate mitigant.

In addition to capital adequacy reporting to the FSA, the Group's Internal Capital Adequacy Assessment Process (ICAAP) document is updated on a quarterly basis, in order to assess the Group's capital adequacy and to determine the levels of capital required to support the current and future risks in the business. In addition to the quarterly Board review of the ICAAP, the main elements within the ICAAP affecting capital planning and capital usage are reviewed monthly by senior management.

Finance is responsible for producing budgets to identify expected future capital requirements resulting from changes to business volumes and mix of assets and activities.

The amount and composition of the Group's capital requirement is determined by assessing the minimum capital requirement under Pillar 1 based upon the Capital Requirements Directive (CRD), the impact of stress and scenario tests, the Group's Individual Capital Guidance from the FSA and the capital requirement that is consistent with the Group's target external rating.

The following table shows the Group's Pillar 1 capital requirement by asset class:

	31.03.09 *£m*	31.03.08 *£m*
Central governments or central banks	**-**	-
Regional governments or local authorities	**0.1**	0.1
Institutions	**10.6**	30.8
Secured on real estate property	**250.6**	241.7
Past due items	**16.1**	5.6
Securitisation positions	**3.8**	3.9
Other items	**13.3**	16.8
	294.5	298.9
Operational Risk - Standardised Approach	**10.0**	11.9
Counterparty credit risk - Standardised Approach	**1.9**	1.3
Total Pillar 1 capital requirement	**306.4**	312.1

5. Counterparty Credit Risk

The Group uses derivative instruments to hedge its exposure to market risk, for example, interest rate and foreign exchange risk. Counterparty credit risk is the risk that a counterparty to a derivative instrument could default. The risk is mitigated by offsetting cash deposited by certain of the counterparties ('Collateral held').

The following table shows the exposures to counterparty credit risk for derivative contracts:

	31.3.09 £m	31.3.08 £m
Interest rate contracts	**27.6**	6.4
Foreign exchange contracts	**15.3**	7.0
Other contracts	**19.2**	16.7
Gross positive fair value of contracts	**62.1**	30.1
Cash Collateral held *	**(23.2)**	-
Net derivatives credit exposure	**38.9**	30.1

* Although cash collateral was held in 2008 (£14.9m), it was not taken account of when calculating the Group's capital requirements.

The net derivatives credit exposure represents the credit exposure to derivative transactions after taking account of legally enforceable collateral arrangements.

The net exposure value of derivatives at 31 March 2009 was £76m (2008: £69m) which includes future credit exposure.

International Swaps and Derivatives Association (ISDA) documentation confers the ability to use designated cash collateral to set against derivative credit exposures in the event of counterparty default. Frequent rebalancing of the collateral requirements reduces the potential increase in future credit exposure.

Types of derivatives

The principal derivatives used by the Group are interest rate swaps, cross currency interest rate swaps and index linked swaps that are used to hedge Group Balance Sheet exposures. Further information concerning the types of derivatives, can be seen in Note 2 to the Annual Report and Accounts for the year ended 31 March 2009.

6. Credit Risk and Dilution Risk

Impairment of mortgage loans and advances
A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment.

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

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

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

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

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

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

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

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

Financial assets are written off when it is reasonably certain that receivables are irrecoverable.

6. Credit Risk and Dilution Risk (continued)

Past due and impaired loans
Past due is defined as loans where the borrower's contracted payments have not been received by the due date.

The Group is managed in segments determined according to similar economic characteristics and customer base. The key segments are:

- Retail lending - incorporating Core Society lending and that of its subsidiaries, private customer savings and financial services
- Commercial - incorporating commercial lending

The following tables provide an analysis of impaired and past due loans for Retail and Commercial lending. The Group does not consider the geographical spread of impaired exposures to be significant.

6. Credit Risk and Dilution Risk (continued)

The figures in the following tables include all group companies but exclude the assets of the securitisation entities as these are considered off balance sheet for regulatory purposes.

Retail lending – Payment due status	31.3.09 £m	31.3.08 £m
Loans neither past due or impaired	**5,007.5**	4,971.5
Past due but not impaired		
- Past due 1 to 3 months	**71.4**	46.7
- Past due 3 to 6 months	**17.0**	12.1
- Past due 6 to 12 months	**5.7**	0.4
- Past due over 12 months	**1.7**	-
Impaired		
- Past due 1 to 3 months	**52.5**	81.8
- Past due 3 to 6 months	**42.4**	33.7
- Past due 6 to 12 months	**37.8**	7.6
- Past due over 12 months	**27.1**	2.0
- Possessions	**27.4**	15.9
	5,290.5	5,171.7

£8m (2008: £3m) of loans that would be past due or impaired have had their terms renegotiated. The carrying value of the repossessed stock was £25.9m (2008: £17.7m).

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

Commercial – Payment due status	31.3.09 £m	31.3.08 £m
Loans neither past due or impaired	**968.3**	1,250.9
Not Past Due but Impaired	**88.6**	**-**
Past due but not impaired		
- Past due up to 3 months	**42.4**	0.1
- Past due 3 to 6 months	**4.7**	0.6
- Past due 6 to 12 months	**31.2**	**-**
Impaired		
- Past due up to 3 months	**57.6**	1.5
- Past due 3 to 6 months	**2.9**	1.1
- Past due 6 to 12 months	**4.2**	**-**
- Past due over 12 months	**1.9**	**-**
- Possessions	**-**	1.0
	1,201.8	1,254.2

The carrying value of the repossessed stock was £0.0m (2008: £0.6m).

6. Credit Risk and Dilution Risk (continued)

Impairment losses

Year Ended 31 March 2009

	Retail Lending		Commercial		Total		
	Individual	Collective	Individual	Collective	Individual	Collective	Total
	£m	£m	£m	£m	£m	£m	£m
At 1st April 2008	19.3	1.4	1.0	1.4	20.3	2.8	23.1
Adjustment for previously securitised loans	1.5	0.2	-	-	1.5	0.2	1.7
Amounts written off	(6.9)	-	(0.5)	-	(7.4)	-	(7.4)
Discount unwind	(0.4)	-	-	-	(0.4)	-	(0.4)
Charge for the Year comprises:							
Provision for loan impairment	15.8	1.5	32.2	16.5	48.0	18.0	66.0
Adjustments to provisions resulting from recoveries	(0.8)	-	-	-	(0.8)	-	(0.8)
Charge for the year	15.0	1.5	32.2	16.5	47.2	18.0	65.2
As at 31st March 2009	28.5	3.1	32.7	17.9	61.2	21.0	82.2

Year Ended 31 March 2008

	Retail Lending		Commercial		Total		
	Individual	Collective	Individual	Collective	Individual	Collective	Total
	£m	£m	£m	£m	£m	£m	£m
At 1st April 2007	15.6	1.6	0.7	1.3	16.3	2.9	19.2
Amounts written off	(1.0)	(0.6)	(0.1)	-	(1.1)	(0.6)	(1.7)
Discount unwind	0.8	-	-	-	0.8	-	0.8
Charge for the Year comprises:							
Provision for loan impairment	5.2	0.4	0.4	0.1	5.6	0.5	6.1
Adjustments to provisions resulting from recoveries	(1.3)	-	-	-	(1.3)	-	(1.3)
Charge for the year	3.9	0.4	0.4	0.1	4.3	0.5	4.8
As at 31st March 2008	19.3	1.4	1.0	1.4	20.3	2.8	23.1

All impairments were against UK assets. All residential and commercial mortgage loans were against UK assets.

6. Credit Risk and Dilution Risk (continued)

Analysis of Treasury credit risk exposures

The tables below analyse the Group's regulatory credit risk exposures to Treasury counterparties as at 31 March 2009. These exposures include on balance sheet exposures and off-balance sheet exposures after credit conversion factors (CCF) have been applied. The Group continues to have no exposure of any kind to the emerging markets or any mortgage market other than the UK.

	31.3.09	31.3.08	Average over year
	£m	£m	£m
Concentration by credit grading			
AAA to AA-	**1,719.9**	1,574.9	1,597.4
A+ to A-	**166.1**	282.7	238.1
Building Societies	**207.8**	239.4	233.6
Other	**7.4**	15.6	46.9
	2,101.2	2,112.6	2,116.0
Concentration by sector			
Sovereign	**837.7**	-	279.2
Financial institutions	**1,022.3**	1,864.1	1,588.1
Local Authorities	**7.4**	7.2	7.5
Asset backed securities	**233.8**	241.3	241.2
	2,101.2	2,112.6	2,116.0
Concentration by region			
UK	**1,916.9**	1,016.2	1,380.3
Europe (excluding UK)	**117.5**	890.0	567.2
North America	**35.9**	206.4	89.2
Australasia	**30.9**	-	79.3
	2,101.2	2,112.6	2,116.0

6. Credit Risk and Dilution Risk (continued)

Residual maturity breakdown of exposures by asset class
The following table shows the residual maturity of exposures stated on a contractual rather than an expected basis, and does not take into account the cash flows payable or receivable over the life of the exposure. For example, if an instrument has a remaining maturity of over 5 years, the whole of the exposure will be shown in the over 5 year category. These exposures include on balance sheet exposures and off-balance sheet exposures after CCF has been applied.

An analysis of the maturity of the exposures for liquidity purposes can be found in Note 2 in the Annual Report & Accounts.

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Residual breakdown of exposures by asset class	Notes	< 1 year	1 - 5 years	> 5 years	Total
		£m	£m	£m	£m
Sovereign		770.6	21.7	45.4	**837.7**
Financial institutions		483.0	499.8	39.5	**1,022.3**
Local Authorities		-	-	7.4	**7.4**
Residential mortgage backed securities	1	-	203.8	30.0	**233.8**
		1,253.6	**725.3**	**122.3**	**2,101.2**

31 March 2008

Residual breakdown of exposures by asset class	Notes	< 1 year	1 - 5 years	> 5 years	Total
		£m	£m	£m	£m
Financial institutions		1,656.1	180.3	27.7	1,864.1
Local Authorities		-	-	7.2	7.2
Residential mortgage backed securities	1	-	195.8	45.5	241.3
		1,656.1	376.1	80.4	2,112.6

Notes:
1. The residential mortgage backed securities are all rated AAA and relate to prime loans on residential property located in the United Kingdom.

7. Credit Risk: Standardised Approach

The Group uses external credit assessments provided by Moody's, Standard & Poor's and Fitch. These are all recognised by the FSA as eligible external credit assessment institutions (ECAI) for the purpose of calculating credit risk requirements under the standardised approach.

The following tables show the exposure values associated with each credit quality step for treasury exposures under the standardised approach.

Financial Institutions

Credit Quality Step	Notes	Risk Weight %	Fitch and S&P Ratings	Moody's ratings	31.3.09 Exposure values £m	31.3.08 Exposure values £m
1	1	0/20	AAA to AA-	Aaa to Aa3	**628.2**	1,279.1
2		20/50	A+ to A-	A1 to A3	**196.8**	354.9
Unrated (building societies)		20/50			**121.1**	161.4
Total					**946.1**	1,795.4

Securitisation positions

Credit Quality Step	Risk Weight %	Fitch and S&P Ratings	Moody's ratings	31.3.09 Exposure values £m	31.3.08 Exposure values £m
1	20	AAA to AA-	Aaa to Aa3	**233.8**	241.4
Total				**233.8**	241.4

Regional Governments or Local Authorities

Credit Quality Step	Risk Weight %	Fitch and S&P Ratings	Moody's ratings	31.3.09 Exposure values £m	31.3.08 Exposure values £m
1	20	AAA to AA-	Aaa to Aa3	**7.4**	7.2
Total				**7.4**	7.2

Central Governments or Central Banks

Credit Quality Step	Risk Weight %	Fitch and S&P Ratings	Moody's ratings	31.3.09 Exposure values £m	31.3.08 Exposure values £m
1	0	AAA to AA-	Aaa to Aa3	**846.2**	10.6
Total				**846.2**	10.6

Notes:

1. Includes instruments guaranteed by the UK Government

8. Exposures to interest rate risk in the non-trading book

Consideration of the Group's interest rate risk is included within Section 2: Risk Management Objectives and Policies.

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

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

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

	As at 31.03.09 £m	Average 2009 £m	High 2009 £m	Low 2009 £m
Market Value	(6.8)	(5.6)	(3.0)	(12.7)
Net interest income	(0.4)	1.4	6.2	(3.0)

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

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

9. Securitisation

West Bromwich Building Society has established a number of securitisation structures to raise funding for the Group. Special Purpose Vehicles ('SPVs') have purchased beneficial interests in portfolios of commercial and residential mortgages that are funded by floating rate mortgage backed securities ('Notes'). The equity of the SPVs 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 SPVs are included as subsidiaries in the consolidated financial statements.

West Bromwich Building Society Group, via its subsidiary companies, West Bromwich Commercial Limited ('WBCL') and West Bromwich Mortgage Company Limited ('WBMC'), provide subordinated and start-up loans to its securitisation structures as follows:

	31.3.09	**31.3.08**
Subordinated loans:		
• Sandwell Commercial Finance No 1 Plc	£2.7m	£2.7m
• Sandwell Commercial Finance No 2 Plc	£5.3m	£5.3m
• Hawthorn Asset Co Ltd	-	£24.0m
Start-up loans:		
• Sandwell Commercial Finance No 1 Plc	£0.4m	£0.8m
• Sandwell Commercial Finance No 2 Plc	£0.6m	£1.0m

The Notes are serviceable firstly from cash flows generated by the mortgage assets and thereafter from the proceeds of the subordinated loans. The Group receives the excess spread on the transactions as deferred consideration, after the SPVs have met their liabilities. The Group's exposure as at 31 March 2009 (including subordinated and start-up loans) to the credit risk of the securitised mortgages was £11.7m (2008 - £33.9m).

Sandwell Commercial Finance No1 Plc
In May 2004, WBCL sold £250m of commercial mortgage assets to Sandwell Commercial Finance No1 Plc. Sandwell Commercial Finance No1 Plc issued Notes to finance the purchase of the commercial mortgage assets.

Sandwell Commercial Finance No2 Plc
In September 2005, WBCL sold £350m of commercial mortgage assets to Sandwell Commercial Finance No2 Plc. Sandwell Commercial Finance No2 Plc issued Notes to finance the purchase of a portfolio of the commercial mortgage assets.

The balances of assets subject to securitisation and Notes in issue as at 31 March 2009 are as follows:

Securitisation Company	Type	Date of Securitisation	31.3.09 Gross Assets securitised £m	31.3.09 External Notes in Issue £m	31.3.08 Gross Assets securitised £m	31.3.08 External Notes in Issue £m
Sandwell Commercial Finance No1 Plc	Commercial mortgage securitisation	19 May 2004	137.2	137.2	155.3	154.6
Sandwell Commercial Finance No2 Plc	Commercial mortgage securitisation	23 September 2005	253.3	251.6	267.9	264.4
Hawthorn Asset Co Limited	Residential mortgage warehouse	15 December 2006 and 7 March 2007	-	-	447.7	447.4
Total			390.5	388.8	870.9	866.4

9. Securitisation (continued)

Treatment of securitisations in capital calculations
The risk has been transferred to the investors, and hence, there are no risk weighted exposures included in the capital calculation for the exposures that have been securitised. However, the subordinated loans and start-up loans to the securitisation structures are deducted from the Group's capital.

Purchased Securitisation positions
The Group also invests in Residential Mortgage Backed Securities. The treatment of the Group's investment in Residential Mortgage Backed Securities is covered under Section 7 Credit Risk: Standardised Approach.

10. Credit Risk Mitigation

Treasury
Credit Support Annexes (CSA) exist for collateralising derivative transactions with counterparties to which the Group has its largest derivative exposures in order to mitigate the risk of loss on default. The CSAs allow margin calls to be made on the net mark to market value of derivative exposures with a particular counterparty. These CSAs are taken into consideration when setting the internal credit risk limits for derivative counterparties and the Pillar 1 capital calculations (see section 6).

A downgrade in the Group's credit rating below BBB+ would have the effect of reducing the market value triggers for margin calls on some of the CSAs resulting in a potential increase in the amount of collateral the Group would have to provide against the derivatives within the CSAs. However, due to the small number of CSAs with downgrade triggers, this is not deemed a significant risk for the Group.

A one notch short term rating downgrade would result in the Group being required to seek an alternate swap counterparty to take responsibility for the swaps that the Group provides to certain securitisation vehicles.

In compliance with BIPRU 11.5.7 the Group has considered its exposures to wrong-way risk. It does not consider that it has any specific exposures and its policies and procedures effectively remove this possibility. It is acknowledged that it is possible that it may become exposed to general risk where an exposure may for non-specific reasons be held to be correlated with a macroeconomic factor which also affects the creditworthiness of the counterparty.

11. Contacts

Should you have any queries please contact:

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Tom Lynch	Divisional Director – Finance

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