Basel II Pillar 3 Disclosures

for the year ended 31 March 2010

WEST BROMWICH
BUILDING SOCIETY

Contents

Section 1 - Overview **3**
Background 3
Basis and frequency of disclosure 3
Location and verification 3
Scope 3

Section 2 - Risk Management Objectives and Policies **4**
Overview 4
Risk oversight 4
Risk management framework 4

Section 3 - Capital Resources **5**
Total available capital 5
Tier 1 capital 5
Tier 2 capital 5

Section 4 - Capital Adequacy **6**
Capital management and reporting 6
Summary of approach to capital adequacy planning 6
Minimum capital requirement (Pillar 1) 6

Section 5 - Risk Measurement and Reporting **7**
Credit risk overview 7
Analysis of treasury credit risk exposures 7
Residual maturity breakdown of treasury exposures by asset class 8
Treasury credit risk mitigation 9
Analysis of real estate property exposures 10
Impairment of mortgage loans and advances 11
Impairment losses on debt instruments 11
Past due and impaired loans 12
Impairment losses 13
Counterparty credit risk 14

Section 6 - Market Risk **15**
Types of derivatives 15
Market risk 15
Interest rate risk 15
Interest rate monitoring 15
Interest rate risk summary 15

Section 7 - Operational Risk **16**
Operational risk overview 16
Operational risk framework 16
Operational risk oversight and governance 16

Section 8 - Securitisation **17**
Treatment of securitisations in capital calculations 17
Purchased securitisation positions 17

Section 9 - Contacts **18**

Section 10 - Glossary of terms **19**

Section 1 – Overview

BACKGROUND

The Capital Requirements Directive (Basel II), which was introduced on 1 January 2007, sets out the rules regarding capital adequacy for banks and building societies, including the disclosure requirements (Pillar 3).

The rules within Basel II are categorised under three pillars:

Pillar 1 sets out the minimum regulatory capital resources requirement, predominately comprising credit risk and operational risk.

Pillar 2 covers Management's assessment of the additional capital resources required to cover specific risks faced by the institution that are not covered by the minimum regulatory capital resources requirements set out under Pillar 1.

Pillar 3 requires building societies and banks operating under the Basel II framework to disclose qualitative and quantitative information regarding their risk assessment process and capital resources, and hence their capital adequacy.

In addition to the assessment of capital requirement under Pillar 1 and 2 above, the Group's overall capital requirement is also reviewed and agreed by the FSA under the Supervisory Review and Evaluation Process (SREP). Under this process, the FSA set the Individual Capital Guidance (ICG) for the Group, which is the minimum amount of capital that the Group should hold.

BASIS AND FREQUENCY OF DISCLOSURE

This document has been prepared to meet the Pillar 3 disclosure requirements of Basel II. The document is based upon the Group's Annual Report and Accounts for the year ended 31 March 2010, unless otherwise stated. These disclosures are issued on an annual basis as soon as practicable after the publications of the Group's Annual Report and Accounts.

LOCATION AND VERIFICATION

These disclosures are published on the West Bromwich Building Society website (**www.westbrom.co.uk**). There is no requirement for the disclosures to be audited, however, some of the information within the disclosures also appear in the Group's audited Annual Report and Accounts.

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 Mortgage Company Limited*
West Bromwich Commercial Limited*
West Bromwich Homes Limited*
Insignia Finance Limited
* indicates subsidiaries that are within the Society solo consolidated group for prudential purposes.

Full details of the principal subsidiary undertakings are included in Note 14(a) to the Annual Report and Accounts for the year ended 31 March 2010.

There is a requirement to calculate and maintain regulatory capital ratios on both a Group and Society solo consolidated basis. However, for West Bromwich Building Society, there are no significant differences between the Group and solo consolidation figures and, to avoid unnecessary duplication, this document includes only the Group analysis.

The Group's Annual Report and Accounts consolidate the investment in two Special Purpose Vehicles (SPVs), Sandwell Commercial Finance No. 1 plc and Sandwell Commercial Finance No. 2 plc. These entities are not consolidated within the Group for regulatory capital purposes as they are bankruptcy remote. Instead, the Group's limited exposure to these 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.

Section 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
- Liquidity risk
- Operational risk
- Market risk, including Interest rate risk
- Concentration risk

RISK OVERSIGHT

The Society's Board has ultimate responsibility for developing an appropriate risk and control framework. Risk governance is provided through Board sub-committees.

In principle, each of the Board sub-committees fulfil a similar role, in that, operating under a Board delegated mandate, they provide a forum for the direction and challenge of Management whilst monitoring business performance and risk exposures.

Each of the Board sub-committees include Non-Executive Directors with other committee members being drawn from the Executive, appropriate members of Senior Management and risk specialists:

- Group Risk Committee ('GRC') has been established by the Board to oversee the Group's risk governance framework and to provide an entity wide perspective on all risk matters. The GRC is responsible for the management of the level of credit risk that has been established by the Board and for approving lending policy and setting limits on credit exposures, which are monitored and reviewed on a monthly basis. It is also responsible for the Internal Capital Adequacy Assessment Process (ICAAP).
- Assets and Liabilities Committee ('ALCo'), which agrees and monitors liquidity and market risk and credit risk as it relates to treasury counterparties.
- Audit and Compliance Committee ('ACC'), which has overall responsibility for reviewing the Society's internal controls and risk management systems, validating the integrity of the Group's financial statements and reviewing and approving the significant financial reporting issues and accounting policies/issues.

RISK MANAGEMENT FRAMEWORK

The risk framework identifies the operational roles and responsibilities, both individual and collective, in the risk management process to ensure that exposed risks are aligned to the Group's risk appetite. The risk appetite, which was agreed by the Board in May 2009, reflects the Back to Basics Strategy outlined within the Annual Report and Accounts.

The Group's risk management framework is based on the best practice "3 lines of defence" model which is illustrated below.

Line of Defence	Activity			Responsibility	Governance
1st	Identification, assessment and management of risk through normal business operations			Line Management	Line Management Oversight
2nd	Policy	Controls	Identify Assess Monitor	Control Functions	Management Committees, Group Risk Committee
3rd	Independent assurance of the adequacy and effectiveness of control systems			Internal Audit	Audit and Compliance Committee

Section 3 – Capital Resources

TOTAL AVAILABLE CAPITAL

The table below summarises the composition of regulatory capital for the Group as at 31 March 2010, together with the prior year comparatives. During the year ended 31 March 2010, the individual entities within the Group and the Group itself complied with all of the externally imposed capital requirements to which they are subject.

At 31 March	2010 £m	2009 £m
Tier 1		
General reserves	**258.5**	278.3
Permanent interest bearing shares ('PIBS')	**74.9**	74.9
Profit participating deferred shares ('PPDS')	**179.9**	–
Deduct Intangible assets	**(7.2)**	(11.1)
Investments in non consolidated SPVs	**(4.9)**	(5.9)
Total Tier 1 capital	**501.2**	336.2
Tier 2		
Revaluation reserve	**3.8**	4.6
Subordinated debt	**–**	184.3
Add back: Collective provisions	**18.4**	21.0
Deduct: Investments in non consolidated SPVs	**(4.9)**	(5.8)
Total Tier 2 capital	**17.3**	204.1
Total capital available (own funds)	**518.5**	540.3

TIER 1 CAPITAL

- 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 26 to the Annual Report and Accounts.
- PPDS are a new form of capital for building societies which are unsecured deferred shares and rank behind the claims of all subordinated noteholders, depositors, creditors and investing members of the Society. Further details about PPDS are provided in Note 27 to the Annual Report and Accounts.
- Intangible assets include capitalised software, goodwill and brand names. These are deducted from capital for regulatory purposes.
- Investments in non-consolidated SPVs consist of the subordinated and start-up loans to securitisation vehicles, which are deducted equally from Tier 1 and Tier 2 capital.

TIER 2 CAPITAL

- Revaluation reserve relates to the land and buildings owned by the Group and held for use by the business.
- Subordinated debt is unsecured and ranks behind the claims of all depositors, creditors and investing members (other than holders of PIBS and PPDS) of the Society. More details of the subordinated liabilities are included in Note 23 to the Annual Report and Accounts.
- Collective provisions can be added back to tier 2 capital.

Section 4 – Capital Adequacy

CAPITAL MANAGEMENT AND REPORTING

Capital is held to provide a cushion to absorb losses that may occur during the economic cycle. 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.

The Group considers its overall capital requirement as part of its internal capital adequacy assessment process ('ICAAP').

The Pillar 1 regulatory capital adequacy of the Society solo consolidated group and the full Group as defined for regulatory capital are reported to the FSA quarterly and half yearly respectively. In addition, summarised regulatory capital positions and forecasts are reported monthly to the Board and quarterly to the Group Risk Committee (including forecasts under stress scenarios). The Group Capital Committee, a sub-committee of the Group Risk Committee monitors the capital position on a monthly basis.

SUMMARY OF APPROACH TO CAPITAL ADEQUACY PLANNING

The Group undertakes an ICAAP at least annually. The ICAAP may be performed more frequently should a significant shift in the Group's risk profile arise. The ICAAP is the means by which the Group ensures that :

- it has sufficient levels of capital resources to pursue the corporate objectives as set out in the Group Corporate Plan in light of the risks it faces; and
- it has sufficient capital resources to trade through a severe recession, if necessary by applying appropriate management actions.

In formulating the Group's Corporate Plan, the Group considers its overall objectives and evaluates these in light of its risk appetite.

During the year to 31 March 2010, the FSA formally agreed the Society's ICG. This provides the Group with a specific regulatory capital minimum and replaced the 'Interim ICG', which was a transitional amount that became effective on 1st January 2008 when the capital requirements framework changed from Basel I to Basel II.

MINIMUM CAPITAL REQUIREMENT (PILLAR 1)

Under FSA rules (Pillar 1) a minimum level of capital must be held for credit risk, operational risk and market risk. The Group has adopted the standardised approach to calculate the minimum regulatory capital resource requirement for credit risk and operational risk, and market risk has been calculated in accordance with BIPRU 7.

The following table shows the Group's overall minimum capital requirement for credit risk under the standardised approach at 31 March 2010 (expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes). Details of the standardised approach to the calculation of regulatory requirements are contained in the FSA handbook.

At 31 March	2010 £m	2009 £m
Credit risk		
Mortgage loans (performing)	**233.4**	250.6
Mortgage loans (past due)	**16.0**	16.1
Liquidity (treasury instruments and cash)	**14.6**	14.5
Other items	**12.8**	13.3
	276.8	294.5
Operational risk - Standardised approach	**9.7**	10.0
Market risk *	**2.9**	1.9
Total Pillar 1 capital requirement	**289.4**	306.4
Total Capital available	**518.5**	540.3
Excess of capital over minimum capital requirement under Pillar 1	**229.1**	233.9

*Market risk for Pillar 1 capital adequacy assessment predominately relates to counterparty credit risk under the standardised approach and foreign exchange exposures.

Section 5 – Risk Measurement and Reporting

CREDIT RISK OVERVIEW

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

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

In 2009 the Society established a dedicated Credit Management Division to increase the skills and resource available to manage mortgage arrears. This has entailed a considerable investment in the Commercial Lending Division to manage the legacy book.

The Group's exposure to residential and commercial credit risk is monitored 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 Group Risk Committee, which is chaired by a Non-executive director and includes the Chief Executive, Group Finance Director and one other Non-Executive Director as members.

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

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

ANALYSIS OF TREASURY CREDIT RISK EXPOSURES

The tables below analyse the Group's regulatory credit risk exposures to treasury counterparties as at 31 March 2010. These encompass both on and off balance sheet exposures, including the potential future exposures ('PFE') of derivatives. They are therefore not directly comparable with the figures reported in Note 31 to the Annual Report and Accounts. The Group continues to have no exposure of any kind to the emerging markets or any mortgage market other than the UK.

At 31 March	2010 £m	2009 £m	Average over year £m
Concentration by credit grading			
AAA to AA-	**1,530.8**	1,719.9	**1,536.9**
A+ to A-	**105.4**	166.1	**138.7**
Building Societies	**119.1**	207.8	**125.8**
Other	**7.0**	7.4	**7.2**
	1,762.3	2,101.2	**1,808.6**
Concentration by sector			
Central Governments & Central Banks	**729.9**	837.7	**757.2**
Financial institutions	**780.2**	1,022.3	**804.2**
Local Authorities	**7.0**	7.4	**7.2**
Asset backed securities	**245.2**	233.8	**240.0**
	1,762.3	2,101.2	**1,808.6**

Section 5 – Risk Measurement and Reporting (continued)

At 31 March	2010 £m	2009 £m	Average over year £m
Concentration by region			
UK	**1,620.1**	1,916.9	**1,617.6**
Europe (excluding UK)	**58.2**	117.5	**121.7**
North America	**16.9**	35.9	**23.2**
Australasia	**67.1**	30.9	**46.1**
	1,762.3	2,101.2	**1,808.6**

RESIDUAL MATURITY BREAKDOWN OF TREASURY 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. These include on balance sheet exposures and off-balance sheet exposures after credit conversion factors have been applied.

An analysis of the maturity of the exposures for liquidity purposes can be found in Note 31 in the Annual Report & Accounts.

Residual breakdown of exposures by asset class At 31 March 2010	Notes	< 1 year £m	1 - 5 years £m	> 5 years £m	Total £m
Central Governments & Central Banks		**417.6**	**92.1**	**220.2**	**729.9**
Financial institutions		**518.2**	**73.3**	**188.7**	**780.2**
Local Authorities		**–**	**7.0**	**–**	**7.0**
Mortgage backed securities	**1**	**65.7**	**34.0**	**145.5**	**245.2**
		1,001.5	**206.4**	**554.4**	**1,762.3**
At 31 March 2009					
Central Governments & Central Banks		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
Mortgage backed securities	1	–	203.8	30.0	233.8
		1,253.6	725.3	122.3	2,101.2

NOTES:

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

Section 5 – Risk Measurement and Reporting (continued)

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 table below shows the exposure values associated with each credit quality step for treasury exposures under the standardised approach.

At 31 March	Notes	Risk Weight %	Fitch and S&P Ratings	Moody's ratings	2010 Exposure value £m	2009 Exposure value £m
Financial Institutions						
Credit Quality Step						
1		**20**	**AAA to AA-**	**Aaa to Aa3**	**565.8**	302.2
2		**20/50**	**A+ to A-**	**A1 to A3**	**47.4**	196.8
Unrated (building societies)		**20/50**			**44.2**	121.1
Total					**657.4**	620.1
Securitisation positions						
Credit Quality Step						
1		**20**	**AAA to AA-**	**Aaa to Aa3**	**245.2**	233.8
Total					**245.2**	233.8
Regional Governments or Local Authorities						
Credit Quality Step						
1		**20**	**AAA to AA-**	**Aaa to Aa3**	**7.0**	7.4
Total					**7.0**	7.4
Central Governments or Central Banks						
Credit Quality Step						
1	**1**	**0**	**AAA to AA-**	**Aaa to Aa3**	**739.5**	1,172.2
Total					**739.5**	1,172.2

NOTES:

1.Includes instruments guaranteed by the UK Government

Capital required under Pillar 1 for liquidity was £14.6m (2008/9 - £14.5m)

TREASURY CREDIT RISK MITIGATION

Credit Support Annexes (CSAs) 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.

Section 5 – Risk Measurement and Reporting (continued)

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.

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.

ANALYSIS OF REAL ESTATE PROPERTY EXPOSURES

The Group calculates credit risk for exposures secured by mortgages on residential real estate and commercial real estate using the Standardised Approach.

The following table shows the Group's exposure to Commercial loans by industry type.

At 31 March	**2010 £m**	2009 £m
Housing Association	**0.1**	5.1
Residential	**96.7**	118.2
Healthcare & Leisure	**214.7**	213.1
Industrial & Warehouse	**44.8**	48.4
Office	**150.4**	147.5
Retail	**620.8**	653.9
Other	**12.8**	15.6
	1,140.3	1,201.8

The following table shows the residual maturity of the Group's on balance exposures secured by mortgages on residential real estate and commercial real estate as at 31st March 2010.

At 31 March	**2010 £m**	2009 £m
Up to 3 months	**37.5**	13.4
3-12 months	**245.3**	60.2
1-5 years	**1,081.2**	460.2
More than 5 years	**4,705.1**	5,975.1
	6,069.1	6,508.9

Section 5 – Risk Measurement and Reporting (continued)

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

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

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

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

Section 5 – Risk Measurement and Reporting (continued)

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.

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 figures in the tables include all group companies but exclude the assets of the securitisation entities as these are considered off balance sheet for regulatory purposes. The Group does not consider the geographical spread of impaired exposures to be significant.

Residential lending - Payment due status **At 31 March**	**2010** **£m**	2009 £m
Loans neither past due or impaired	**4,685.2**	5,007.5
Past due but not impaired		
– Past due 1 to 3 months	**83.8**	71.4
– Past due 3 to 6 months	**13.2**	17.0
– Past due 6 to 12 months	**6.5**	5.7
– Past due over 12 months	**1.9**	1.7
Impaired		
– Past due 1 to 3 months	**43.6**	52.5
– Past due 3 to 6 months	**27.5**	42.4
– Past due 6 to 12 months	**16.3**	37.8
– Past due over 12 months	**31.5**	27.1
– Possessions	**13.6**	27.4
	4,923.1	5,290.5

£30m (2008/9: £8m) of loans that would be past due or impaired have had their terms renegotiated.

Section 5 – Risk Measurement and Reporting (continued)

Commercial - Payment due status At 31 March	2010 £m	2009 £m
Loans neither past due or impaired	**852.6**	968.3
Not Past Due but impaired	**57.7**	88.6
Past due but not impaired		
– Past due up to 3 months	**52.7**	42.4
– Past due 3 to 6 months	**0.1**	4.7
– Past due 6 to 12 months	**2.9**	31.2
– Past due over 12 months	**3.3**	–
Impaired		
– Past due up to 3 months	**77.1**	57.6
– Past due 3 to 6 months	**40.5**	2.9
– Past due 6 to 12 months	**2.0**	4.2
– Past due over 12 months	**46.4**	1.9
– Possessions	**5.0**	–
	1,140.3	1,201.8

IMPAIRMENT LOSSES

The following table shows the movement during the year in impairment provisions. Further information on the charge to the income statement for provisions is included in Note 13 to the Annual Report and Accounts:

	Retail Lending		Commercial		Total		
At 31 March 2010	Individual £m	Collective £m	Individual £m	Collective £m	Individual £m	Collective £m	Total £m
At 1 April 2009	29.4	3.1	31.8	17.9	61.2	21.0	**82.2**
Amounts written off	(11.2)	–	(7.6)	–	(18.8)	–	**(18.8)**
Charge/(credit) for the year comprises:							
Provision for loan impairment	15.9	2.1	8.0	(4.7)	23.9	(2.6)	**21.3**
Adjustments to provisions resulting from recoveries	(0.7)	–	–	–	(0.7)	–	**(0.7)**
Charge/(credit) for the year	**15.2**	**2.1**	**8.0**	**(4.7)**	**23.2**	**(2.6)**	**20.6**
As at 31 March 2010	**33.4**	**5.2**	**32.2**	**13.2**	**65.6**	**18.4**	**84.0**

Section 5 – Risk Measurement and Reporting (continued)

At 31 March 2009	Retail Lending Individual £m	Retail Lending Collective £m	Commercial Individual £m	Commercial Collective £m	Total Individual £m	Total Collective £m	Total £m
At 1 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	16.7	1.5	31.3	16.5	48.0	18.0	66.0
Adjustments to provisions resulting from recoveries	(0.8)	–	–	–	(0.8)	–	(0.8)
Charge for the year	15.9	1.5	31.3	16.5	47.2	18.0	65.2
As at 31 March 2009	29.4	3.1	31.8	17.9	61.2	21.0	82.2

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

Capital required under Pillar 1 for mortgage loans (both performing and non performing) was £249.4m (2008/9 - £266.7m).

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:

At 31 March	2010 £m	2009 £m
Interest rate contracts	**34.3**	27.6
Foreign exchange contracts	**13.1**	15.3
Other contracts	**31.0**	19.2
Gross positive fair value of contracts	**78.4**	62.1
Cash collateral held	**(22.5)**	(23.2)
Net derivatives credit exposure	**55.9**	38.9

Capital required under Pillar 1 for counterparty credit risk totals £2.9m (2008/9 - £1.9m). It is calculated using the CCR Mark to Market Method.

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 2010 was £100m (2008/9: £76m) which includes potential future exposure ('PFE').

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.

Section 6 - Market Risk

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 Financial Position exposures. Further information concerning the types of derivatives can be seen in Note 31 to the Annual Report and Accounts for the year ended 31 March 2010.

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, which is responsible for managing the Group's exposure to all aspects of Market risk within parameters set by the Board. ALCo reviews the Treasury Policy, recommending changes to the Board as appropriate, and ensures that regular reports on all aspects of Market risk (including interest rate risk and foreign currency risk) are assessed and reported to the Board. The principal Market risk within the Group relates to interest rate risk, which arises 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 natural 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 Group's main exposure to equities is through its defined benefit pension scheme. While the Group does attract funds through index-linked savings products, all exposures to equity indices are fully hedged. The Group has a negligible net exposure to exchange rates.

INTEREST RATE RISK

Interest rate risk arises from the varying interest rate features and maturities of mortgage and savings products, and from the liquidity and wholesale funding held by the Group. These primarily arise from the imperfect matching of interest rates between different financial instruments and the timing differences on the re-pricing 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 maximum level of interest rate risk is governed by the Board approved Treasury Policy in line with the Group's risk appetite.

INTEREST RATE MONITORING

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.

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 alternate scenarios are also considered.

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

INTEREST RATE RISK SUMMARY

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

	As at 31 March 2010 £m	Average 2010 £m	High 2010 £m	Low 2010 £m
Market Value	(0.2)	(1.7)	4.4	(8.9)
Net interest income	0.7	0.8	3.9	(2.6)

Capital required under Pillar 1 for this element of market risk was £0.0m (2008/9 - £0.0m).

Section 7 – Operational Risk

OPERATIONAL RISK OVERVIEW

The Group has adopted the standardised approach to Operational risk. Under this approach, the capital charge for Operational risk is calculated by averaging the annual income from prescribed business lines over the past three years and applying a set regulatory multiplier to the different business lines.

The Group has applied 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.

OPERATIONAL RISK FRAMEWORK

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 and the Group Risk Committee.

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

OPERATIONAL RISK OVERSIGHT AND GOVERNANCE

Oversight and governance arrangements for the setting and management of a robust operational risk management policy and framework are the responsibility of the Board and the Group Risk Committee.

Capital required under Pillar 1 for operational risk was £9.7m (2008/9 - £10.0m)

Section 8 – Securitisation

West Bromwich Building Society has established a number of securitisation structures to raise funding for the West Bromwich Building Society Group. Special Purpose Vehicles (SPV) 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 company, West Bromwich Commercial Limited (WBCL), provides subordinated and start-up loans to its securitisation structures as follows:

At 31 March	2010 £m	2009 £m
Subordinated loans, start-up loans and other balances:		
Sandwell Commercial Finance No. 1 plc	3.1	4.1
Sandwell Commercial Finance No. 2 plc	6.7	7.6
	9.8	11.7

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 SPVs were originally set up as follows:

Sandwell Commercial Finance No. 1 plc
In May 2004, WBCL sold £250m of commercial mortgage assets to Sandwell Commercial Finance No. 1 plc. Sandwell Commercial Finance No. 1 plc issued notes to finance the purchase of the commercial mortgage assets.

Sandwell Commercial Finance No. 2 plc
In September 2005, WBCL sold £350m of commercial mortgage assets to Sandwell Commercial Finance No. 2 plc. Sandwell Commercial Finance No. 2 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 2010 are as follows:

Securitisation Company	Type	Date of Securitisation	2010 Gross Assets securitised £m	2010 External Notes in Issue £m	2009 Gross Assets securitised £m	2009 External Notes in Issue £m
Sandwell Commercial Finance No. 1 plc	Commercial mortgage securitisation	19 May 2004	**117.3**	**117.3**	137.2	137.2
Sandwell Commercial Finance No. 2 plc	Commercial mortgage securitisation	23 September 2005	**234.1**	**234.1**	253.3	251.6
Total			**351.4**	**351.4**	390.5	388.8

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 (50% from Tier 1 and 50% from Tier 2 capital).

PURCHASED SECURITISATION POSITIONS

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

Section 9 – Contacts

Should you have any queries please contact:

Stuart Hislop	Treasurer
Tom Lynch	Divisional Director, Finance
Manjit Hayre	Head of Credit Risk

West Bromwich Building Society. Principal Office: 374 High Street, West Bromwich, West Midlands, B70 8LR.

FSA Registration Number 104877

Section 10 – Glossary of terms

Term	Definition
Basel II Framework	The Basel Committee on Banking Supervision's statement of best practice that defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. The Accord is structured around Pillars 1, 2 & 3, became law in the EU Capital Requirements Directive, and was implemented in the UK in the FSA Handbook.
BIPRU	The Prudential Sourcebook for banks, building societies and investment firms which forms part of the FSA Handbook for Basel II.
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
CQS (Credit Quality Steps)	A credit quality assessment scale as set out in BIPRU 3.4 (Risk weights under the standardised approach to credit risk) and BIPRU 9 (Securitisation).
Credit risk	The potential to incur losses from the failure of a borrower or counterparty to meet its obligation to pay interest or repay capital on an outstanding loan.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set off or netting.
ECAI	External Credit Assessment Institution. An ECAI (e.g. Moody's, Standard and Poor's and Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves.
FSA	Financial Services Authority. The financial services industry regulator in the UK.
Guarantee	An agreement by a third party to cover the potential loss to a credit institution should a specified counterparty default on their obligations.
ICA	Internal Capital Assessment - the document produced as a result of the ICAAP.
ICAAP	Internal Capital Adequacy Assessment Process. The process the Group follows to determine capital requirements under Basel II Pillar 2.
ICG	Individual Capital Guidance. The minimum amount of capital the Group should hold as set by the FSA under Basel II Pillar 2.
Interest rate risk	Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates.
LIBOR	London Inter Bank Offered Rate.
LTV	Loan To Value. The ratio of current exposure value as a proportion of the value of the asset held as security (usually residential property) expressed as a percentage.
Maturity	The remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement.
Minimum capital requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Basel II Pillar 1 requirements for credit and operational risk.
Netting	The ability to reduce credit risk exposures by offsetting the value of any deposits against loans to the same counterparty.
Operational risk	Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events.
PFE	The potential future exposure is an estimate of the exposure relating to the future cash flows of derivatives, it is based upon the remaining duration and the type of the derivative.
PIBS	Permanent Interest Bearing Shares. Unsecured, deferred shares that are a form of Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors and creditors of the Society and pari-passu with the Society's PPDS.
Pillar 1	The part of the Basel II Framework which sets out the regulatory minimum capital requirements for credit and operational risk.
Pillar 2	The part of the Basel II Framework which sets out the processes by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments. This includes all risks (including Pillar 1 risks) - ICG is an outcome from Pillar 2.

Pillar 3	The part of the Basel II Framework which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline.
PPDS	Profit Participating Deferred Shares are unsecured deferred shares that are a form of Core Tier 1 capital. PPDS rank behind depositors and creditors of the Society and rank pari-passu with the Society's PIBS.
Provisions	Amounts set aside to cover losses associated with credit risks.
RWA	Risk Weighted Assets. The value of an on or off balance sheet exposure adjusted under Pillar 1 rules to reflect the degree of risk it presents.
Securitisation	A transaction or scheme where assets are sold to a Special Purpose Vehicle (SPV) in return for immediate cash payment. That vehicle raises the immediate cash payment by issuing debt securities in the form of tradable notes or commercial paper to wholesale investors who receive an income from the underlying assets. Some risk is retained on the balance sheet while the remaining risk is transferred to investors. Securitisations may be purchased or retained.
SREP	Supervisory Review and Evaluation Process, the FSA assessment of a firm's own capital assessment (ICA) under Basel II Pillar 2.
Stress testing	Various techniques that are used to gauge the potential vulnerability to exceptional but plausible events.
Subordinated debt	A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors, and investing members (other than holders of PIBS and PPDS).
The Standardised Approach (credit risks)	The standardised approach to credit risk, calculated by applying varying RWA percentages to credit exposures, depending on the underlying risk.
The Standardised Approach (operational risks)	The standardised approach to operational risk, calculated using three year historical net income multiplied by a factor of 12-18%, depending on the underlying business being considered.
Value at Risk (VaR)	A statistical technique to estimate the maximum loss that could be made for a given factor of confidence over a set time horizon under normal market conditions.