



ANNIVERSARY
— 1849 - 2024 —

Pillar 3 Disclosures

Year ended 31 March 2024

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Summary

Introduction

This document presents the consolidated Pillar 3 disclosures of West Bromwich Building Society (hereafter 'the Group' or 'the Society') as at 31 March 2024 in accordance with the Disclosure (CRR) Part of the PRA Rulebook.

Key metrics

Template UK KM1 below presents key prudential metrics in relation to capital, leverage, liquidity and funding which, where applicable, have remained in excess of regulatory requirements and within the Board's risk appetite throughout the year ended 31 March 2024.

Under the CRD V transitional rules, effective at the reporting date, the Common Equity Tier 1 (CET 1) ratio has reduced to 17.8% (31 March 2023: 18.7%) and the UK leverage ratio to 7.5% (31 March 2023: 7.9%), with the key driver being growth in the residential mortgage book. During the year, the Society repurchased £20.4m of 11% Subordinated Tier 2 Notes which were subsequently cancelled. The Society is able to meet all of its total capital and combined buffer requirements with the highest quality CET 1 capital.

The Society's average Liquidity Coverage Ratio (LCR) over the 12 months to 31 March 2024 was 208.8% (12 months to 31 March 2023: 264.7%). The LCR comfortably exceeds the current regulatory minimum requirement of 100%. These figures differ to the LCR metrics reported in the Annual Report and Accounts which give the position at the year-end date rather than a 12 month average.

The Society's average Net Stable Funding Ratio over the four quarters to 31 March 2024 was 143.1%.

UK KM1 - Key metrics template

Figures in £m unless otherwise specified		a	c	e
		Transitional	Transitional	Transitional
		31 Mar 2024	30 Sep 2023	31 Mar 2023
Available own funds (amounts)				
1	Common Equity Tier 1 (CET1) capital	402.3	380.7	393.3
2	Tier 1 capital	402.3	380.7	393.3
3	Total capital	404.3	382.7	415.1
Risk-weighted exposure amounts				
4	Total risk-weighted exposure amount	2,258.8	2,115.2	2,108.5
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	17.8	18.0	18.7
6	Tier 1 ratio (%)	17.8	18.0	18.7
7	Total capital ratio (%)	17.9	18.1	19.7
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)				
UK 7a	Additional CET1 SREP requirements (%) ¹	0.7	0.8	0.8
UK 7b	Additional AT1 SREP requirements (%) ²	0.2	0.3	0.3
UK 7c	Additional T2 SREP requirements (%) ²	0.3	0.3	0.3
UK 7d	Total SREP own funds requirements (%)	9.3	9.4	9.4

UK KMI - Key metrics template (continued)

Combined buffer requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2.5	2.5	2.5
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-
9	Institution specific countercyclical capital buffer (%)	2.0	2.0	1.0
UK 9a	Systemic risk buffer (%)	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-
UK 10a	Other Systemically Important Institution buffer	-	-	-
11	Combined buffer requirement (%)	4.5	4.5	3.5
UK 11a	Overall capital requirements (%)	13.8	13.9	12.9
12	CET1 available after meeting the total SREP own funds requirements (%)	8.6	8.7	10.3
Leverage ratio				
13	Total exposure measure excluding claims on central banks	5,399.0	5,103.8	5,000.5
14	Leverage ratio excluding claims on central banks (%)	7.5	7.5	7.9
Additional leverage ratio disclosure requirements³				
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)			
14b	Leverage ratio including claims on central banks (%)			
14c	Average leverage ratio excluding claims on central banks (%)			
14d	Average leverage ratio including claims on central banks (%)			
14e	Countercyclical leverage ratio buffer (%)			
Liquidity Coverage Ratio				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	707.1	768.4	844.3
UK 16a	Cash outflows - Total weighted value	378.1	381.9	352.4
UK 16b	Cash inflows - Total weighted value	39.2	31.2	26.4
16	Total net cash outflows (adjusted value)	338.9	350.7	326.0
17	Liquidity coverage ratio (%)	208.8	219.6	264.7
Net Stable Funding Ratio				
18	Total available stable funding	5,237.5	5,198.2	5,350.7
19	Total required stable funding	3,662.4	3,567.8	3,583.8
20	NSFR ratio (%)	143.1	145.7	149.4

Notes

- At least 56.25% of the additional own funds requirements under SREP must be met with CET1 capital. The figures in row UK 7a show this minimum level.
- The proportions of additional own funds requirements to be met by AT1 and T2 capital are not prescribed but must not exceed 43.75% and 25% respectively or 43.75% in combination. The figure in row UK 7c of the table shows the maximum level of additional own funds requirements that could be met by T2 capital. The figure in UK 7b shows the maximum residual element of additional own funds requirements that could be met by AT1 if 25% were to be met with T2.
- The additional leverage ratio disclosure requirements do not apply to the Society as it does not meet the relevant reporting thresholds.

The Society has elected to adopt the IFRS 9 transitional arrangements laid out in Article 473a of the CRR (as amended during 2020/21) which allow a proportion of relevant expected credit loss provisions to be added back to CET 1 capital. The relief is being phased out over the period to 31 March 2025. Template IFRS 9-FL below shows the Society's key capital ratios with and without the application of IFRS 9 transitional relief.

IFRS 9-FL Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

	31 Mar 2024	30 Sep 2023	31 Mar 2023
Available capital (£m)			
1 Common Equity Tier 1 (CET1)	402.3	380.7	393.3
2 CET1 capital as if IFRS 9 transitional arrangements had not been applied	402.2	380.7	385.0
3 Tier 1	402.3	380.7	393.3
4 Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	402.2	380.7	385.0
5 Total regulatory capital	404.3	382.7	415.1
6 Total capital as if IFRS 9 transitional arrangements had not been applied	404.2	382.7	406.8
Total risk-weighted assets (RWAs) (£m)			
7 Total RWAs	2,258.8	2,115.2	2,108.5
8 Total RWAs as if IFRS 9 transitional arrangements had not been applied	2,258.7	2,115.2	2,100.2
Capital ratios (%)			
9 Common Equity Tier 1 ratio	17.8	18.0	18.7
10 Common Equity Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	17.8	18.0	18.3
11 Tier 1 ratio	17.8	18.0	18.7
12 Tier 1 ratio as if IFRS 9 transitional arrangements had not been applied	17.8	18.0	18.3
13 Total regulatory capital ratio	17.9	18.1	19.7
14 Total regulatory capital ratio as if IFRS 9 transitional arrangements had not been applied	17.9	18.1	19.4
UK leverage ratio			
15a Total leverage ratio exposure measure (£m)	5,399.0	5,103.8	5,000.5
15b Total leverage ratio exposure measure as if IFRS 9 transitional arrangements had not been applied (£m)	5,398.9	5,103.8	4,992.2
16 UK leverage ratio (%)	7.5	7.5	7.9
17 Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	7.4	7.5	7.7

Disclosure requirements

Regulatory framework

The Society is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

The Basel III framework of the Basel Committee on Banking Supervision (BCBS) was developed to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress. The framework is structured around three 'pillars' whereby Pillar 1 represents minimum capital requirements, Pillar 2 the supervisory review process and Pillar 3 market discipline.

These Pillar 3 disclosures have been prepared in accordance with the Capital Requirements Directive (CRD V), UK Capital Requirements Regulation (CRR) and the Disclosure (CRR) Part of the PRA Rulebook, which prescribes the format of disclosures via templates in order to promote transparency, consistency and comparability of information between firms.

The BCBS released *Basel III: Finalising post-crisis reforms to the Basel III framework* in December 2017. Consultation paper CP16/22 sets out the PRA's proposed implementation of these reforms, commonly referred to as Basel 3.1 standards, in the UK. The proposals, which include significant revisions to the Standardised Approach to Credit Risk, are expected to apply from 1 July 2025.

In December 2023, the PRA published *PS15/23 The Strong and Simple Framework: Scope Criteria, Liquidity and Disclosure requirements and PS17/23 Implementation of the Basel 3.1 standards near-final part 1*. The Strong and Simple framework seeks to mitigate the 'complexity problem' that can arise for smaller banks and building societies when the same prudential requirements are applied to all firms, but the costs of understanding, interpreting, and operationalising those requirements are higher relative to the associated public policy benefits for smaller firms than for larger firms. It aims to simplify the prudential rules for eligible firms, known as Small Domestic Deposit Takers (SDDTs), whilst maintaining their resilience and reducing barriers to growth.

During the year, the Society elected to become a SDDT and SDDT consolidation entity. The Society will therefore be eligible to apply for the Interim Capital Regime (ICR) set out in PS17/23, which essentially allows SDDTs to be subject to the current CRR until such time as the SDDT capital regime is implemented. The PRA has stipulated that firms can request to have their SDDT status revoked once the simpler capital rules have been published and instead be subject to the Basel 3.1 standards.

Policy

The Board has adopted a formal policy, underpinned by internal processes, systems and controls, to comply with Pillar 3 disclosure requirements.

Basis and frequency of disclosure

This document sets out the 2024 Pillar 3 disclosures for the Society prepared in accordance with the rules laid out in the Disclosure (CRR) Part of the PRA Rulebook as applicable for listed SDDTs.

The disclosures in relation to key metrics are published semi-annually. All other disclosures are issued on an annual basis. The disclosures have been published in conjunction with the Society's 2024 Annual Report and Accounts. The Pillar 3 disclosures do, in some instances, vary from those reflected in the Annual Report and Accounts due to differences between regulatory and accounting treatments and disclosure requirements.

Non-material, proprietary or confidential information

The Disclosure (CRR) Part of the PRA Rulebook allows institutions to omit one or more of the required disclosures if information provided by such disclosures is not regarded as material or if it would be regarded as proprietary or confidential.

There is a requirement to calculate and maintain regulatory capital ratios on both a Group and an Individual Consolidated ('Solo') basis. However, for West Bromwich Building Society, there are no material differences between the Group and Solo consolidation figures. Therefore, the disclosures in this document are presented on a Group basis only.

The Society does not consider any of the required disclosures to contain proprietary or confidential information and has not omitted any disclosures on these grounds.

Location and verification

These disclosures have been reviewed by the Audit Committee and approved by the Society's Board prior to publication on the West Bromwich Building Society website (www.westbrom.co.uk). These disclosures have not been, and are not required to be, subject to independent external audit, and do not constitute any part of the Society's financial statements; however, some of the information within the disclosures also appears in the Society's audited 2024 Annual Report and Accounts.

Attestation by Board member

I confirm that, to the best of my knowledge, the Society's Pillar 3 disclosures for the year ended 31 March 2024 comply with the Disclosure (CRR) Part of the PRA Rulebook and have been prepared in accordance with the Society's Pillar 3 Disclosure Policy.

Alex Pawley
Chief Financial Officer

Capital requirements

The template below shows risk-weighted exposure amounts (RWEAs) analysed by risk type and approach as at 31 March 2024 and the prior year-end date. Total own funds requirements at 31 March 2024 are derived by multiplying the corresponding RWEAs by 8%.

UK OVI - Overview of risk weighted exposure amounts

At 31 March					
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements	
		a	b	c ₁	c ₂
		2024	2023	2024	2023
		£m	£m	£m	£m
1	Credit risk (excluding CCR)	2,107.2	1,979.9	168.6	158.4
2	Of which the standardised approach	2,107.2	1,979.9	168.6	158.4
3	Of which the foundation IRB (FIRB) approach	-	-	-	-
4	Of which slotting approach	-	-	-	-
UK 4a	Of which equities under the simple riskweighted approach	-	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-	-
6	Counterparty credit risk - CCR	1.5	3.4	0.1	0.3
7	Of which the standardised approach	-	-	-	-
8	Of which internal model method (IMM)	-	-	-	-
UK 8a	Of which exposures to a CCP	0.3	0.3	-	-
UK 8b	Of which credit valuation adjustment - CVA	0.3	1.6	-	0.2
9	Of which other CCR	0.9	1.5	0.1	0.1
15	Settlement risk	-	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	8.7	3.7	0.7	0.3
17	Of which SEC-IRBA approach	-	-	-	-
18	Of which SEC-ERBA (including IAA)	8.7	3.7	0.7	0.3
19	Of which SEC-SA approach	-	-	-	-
UK 19a	Of which 1250%	-	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-	-
21	Of which the standardised approach	-	-	-	-
22	Of which IMA	-	-	-	-
UK 22a	Large exposures	-	-	-	-
23	Operational risk	141.4	121.5	11.3	9.7
UK 23a	Of which basic indicator approach	-	-	-	-
UK 23b	Of which standardised approach	141.4	121.5	11.3	9.7
UK 23c	Of which advanced measurement approach	-	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	16.4	23.1	1.3	1.8
29	Total	2,258.8	2,108.5	180.7	168.7

Notes

1 Certain rows of the template which are not applicable in the UK have not been presented.

Remuneration

UK REMA - Remuneration policy

(a) Information relating to the bodies that oversee remuneration

Governance

The Remuneration Policy is overseen by the Remuneration Committee, a Committee of the Board. It is formed of six Non-Executive Directors (NEDs) including the Society Chair and is chaired by the Society Deputy Chair. There have been five meetings of the Remuneration Committee during the year. FIT Consultants were appointed as Advisors to the Remuneration Committee in 2021 and have continued to provide services in 2023/24. FIT Consultants have provided benchmarking and insight in respect of Executive Director remuneration, NED fees, Code Staff remuneration and some wider workforce statistics.

Code Staff (identified staff)

The Remuneration Policy provides the framework for the Remuneration Committee to make remuneration decisions and recommendations to the Board in relation to the Society's Code Staff, which is the group of individuals deemed to have a material impact on the Society's risk profile. This includes NEDs, Executive Directors; the Chief Executive (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO) and Chief Risk Officer (CRO), and other (non-Board) Executives; Chief People Officer & Group Secretary (CPO&GS), Chief Customer Officer (CCO) and Chief Internal Auditor (CIA). Former Code Staff included in template UK REM1 include the Divisional Director Marketing & Intermediary Sales, Divisional Director Operations and Group Secretary.

(b) The design and structure of the remuneration system for identified staff

The Remuneration Policy includes the following sections:-

- Background, principles and context within which the policy is set;
- A description of the components of each element of Executive Director remuneration and how it operates;
- A description and details of the operation of NED fees;
- The recruitment policy for Executive Directors;
- The recruitment policy for NEDs;
- Reference to service contracts;
- Policy on payment for loss of office;
- Employment conditions elsewhere in the Society; and
- Remuneration scenarios.

The Remuneration Policy is set by the Remuneration Committee and its approach is to ensure that Code Staff remuneration is designed to promote the long-term success of the Society, with full consideration of other stakeholders such as members, employees and regulators.

Executive Directors and other (non-Board) Executives receive a basic salary whereas NEDs receive fees plus expenses for travel and accommodation in relation to their attendance at meetings. Executive Directors and other Executives are invited to join the Society's stakeholder pension plan or, as an alternative, be provided with a cash allowance (for example, where they have exceeded the annual or lifetime allowance). Benefits are provided in line with market practice for Executive Directors and other Executives which include private medical care and life assurance. Other benefits may be provided in individual circumstances. NEDs do not receive a pension, pension allowance or benefits.

The criteria for performance measurement of Executive Directors and other Executives is comprised of collective Society objectives and individual objectives, all of which are metricised and measured. All performance awards that are linked to these objectives are subject to operation within the Society's risk appetites and values; adjustments to performance-related remuneration are made if these are deviated from. NEDs do not receive variable remuneration.

The Remuneration Policy is reviewed annually by the Remuneration Committee.

Remuneration for Code Staff working in internal control functions is overseen by the Chair of the RC and Chair of the AC respectively. The CIA and CRO provide an independent report to the Remuneration Committee regarding the proposed remuneration of Code Staff each year.

None of the Society's variable remuneration is guaranteed; it is 100% discretionary.

(c) The ways in which current and future risks are taken into account in the remuneration process

As described above, the CRO and CIA provide an update at least annually to Remuneration Committee on risk considerations relating to remuneration matters, including the alignment of remuneration policy and risk management and the regulatory risk attaching to remuneration. There is a risk 'gateway' attached to all variable remuneration.

(d) Ratios between fixed and variable remuneration

Maximum performance related pay (variable remuneration) for Executive Directors is 50% of basic salary and the Remuneration Committee can use its discretion to award up to 75% of basic salary in exceptional circumstances.

UK REMA - Remuneration policy (continued)

(e) The ways in which the Society seeks to link performance during a performance measurement period with levels of remuneration

An element of variable pay for the Executive Directors and Code Staff is based on the collective Society objectives across a number of areas including Customer, Financial, Change, Risk and People. Further information on the Society objectives for the year ended 31 March 2024 is given in the Directors' Remuneration Report within the 2024 Annual Report and Accounts.

For the CEO, COO and CFO, performance-related pay (PRP) is split 20% to individual objectives and 30% to the above Society objectives. For the CRO it is split 40% to individual objectives and 10% to Society objectives. The split is 30% individual and 20% Society objectives for the Chief Customer Officer. For the Chief People Officer & Group Secretary the split is 40% individual and 10% Society objectives. The Chief Internal Auditor is only measured against individual objectives for which the maximum PRP is 20% of basic salary.

(f) The ways in which the Society seeks to adjust remuneration to take account of long-term performance

40% of awarded PRP is deferred over a four year period for Executive Directors and other Code Staff except NEDs (who do not receive PRP).

Deferred PRP is subject to a seven year clawback period for Executive Directors and a five year period for other Code Staff except NEDs (who do not receive PRP).

Quantitative information on remuneration

Template UK REM1 below shows the amount and type of fixed and variable remuneration awarded to identified staff. Where applicable, variable remuneration includes severance payments awarded in the year. The table for the year ended 31 March 2024 excludes £49,481 paid to the previous Group Finance and Operations Director in lieu of pay and benefits for the period from April 2023 to November 2023 under the terms of his contract when he stepped down from his directorial role.

UK REM1 - Remuneration awarded for the financial year

Year ended 31 March 2024			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	8	4	6	-
2		Total fixed remuneration (£000)	541	1,477	898	-
3		Of which: cash-based	541	1,470	893	-
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	7	5	-
9	Variable remuneration	Number of identified staff	-	4	6	-
10		Total variable remuneration (£000)	-	614	530	-
11		Of which: cash-based	-	614	529	-
12		Of which: deferred	-	246	88	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15	Of which: other forms	-	-	1	-	
16	Of which: deferred	-	-	-	-	
17	Total remuneration (2 + 10)		541	2,091	1,428	-

UK REM1 - Remuneration awarded for the financial year (continued)

Year ended 31 March 2023			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	7	4	6	-
2		Total fixed remuneration (£000)	489	1,263	881	-
3		Of which: cash-based	489	1,258	878	-
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	5	3	-
9	Variable remuneration	Number of identified staff	-	4	6	-
10		Total variable remuneration (£000)	-	609	226	-
11		Of which: cash-based	-	609	226	-
12		Of which: deferred	-	229	89	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15	Of which: other forms	-	-	-	-	
16	Of which: deferred	-	-	-	-	
17	Total remuneration (2 + 10)		489	1,872	1,107	-

Notes

1 Certain rows of the template which are not applicable in the UK have not been presented.

Appendix

Glossary

Basel III framework

The Basel Committee on Banking Supervision's strengthened global regulatory standards on bank capital adequacy and liquidity, defining the methods by which firms should calculate their regulatory capital requirements in order to protect the financial system against unexpected losses.

Capital conservation buffer (CCoB)

A risk-adjusted capital requirement for financial institutions that can be used to absorb losses whilst avoiding breaching minimum capital requirements. This is set at 2.5% of risk weighted assets.

Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR)

CRD IV, comprising the Capital Requirements Regulation and the Capital Requirements Directive, was the legislative package which implemented the Basel III agreement. The legislation has been subsequently updated with the latest package commonly referred to as CRD V/CRR II. The elements of CRD V and CRR II which did not come into force in the EU until after the end of the Brexit transition period have subsequently been implemented in the UK via the PRA Rulebook.

Central counterparty (CCP)

A financial market infrastructure that can reduce counterparty credit risk by means of sharing that risk between its members. In the context of derivative transactions, CCPs place themselves between buyers and sellers and effectively guarantee the obligations under the contract agreed between the two counterparties, both of which would be participants of the CCP. If one counterparty fails, the other is protected via the default management procedures and resources of the CCP.

Combined buffer

The combined buffer is designed to promote the conservation of capital and comprises the Capital Conservation Buffer (CCoB), Countercyclical Buffer (CCyB), the buffer for global systemically important institutions (G-SIIs) and (for ring-fenced banks and the largest building societies) the other systemically important institutions buffer (O-SII buffer). Each component is expressed as a percentage of risk-weighted assets which must be held in the form of CET 1 capital but is available to draw down in periods of stress.

Common Equity Tier 1 (CET 1) capital

Common Equity Tier 1 capital comprises general reserves, the fair value reserve, the revaluation reserve and CCDS together with a number of regulatory adjustments. Common Equity Tier 1 must absorb losses on a going concern basis and is the highest quality form of regulatory capital.

Common Equity Tier 1 ratio

Common Equity Tier 1 capital as a percentage of risk weighted assets.

Core capital deferred shares (CCDS)

CCDS are a form of CET 1 capital issued by building societies. They rank behind depositors and creditors.

Countercyclical buffer (CCyB)

A risk-adjusted capital requirement that is varied over the financial cycle and aims to ensure that financial sector capital requirements take account of the macro-financial environment in which banks and building societies operate. It may be built up in favourable conditions and released in economic downturns.

Counterparty credit risk (CCR)

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

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.

Derivative financial instrument

A contract or agreement which derives its value or cash flows from changes in an underlying index such as an interest rate, foreign exchange rate or market index. The Society uses derivatives, in the form of interest rate swaps, to mitigate against interest rate risk.

Fair value reserve

The fair value reserve contains unrealised gains and losses arising from changes in the fair value of non-derivative financial assets that are categorised as fair value through other comprehensive income.

Financial Conduct Authority (FCA)

The financial services industry regulator in the UK for conduct related matters.

Interest rate risk

Interest rate risk is the exposure of a firm's financial condition to movements in interest rates.

Leverage ratio

Tier 1 capital as a percentage of total exposures which include on- and off-balance sheet assets. Within this document, the ratio is presented on two bases – including and excluding claims on central banks in the total exposure measure.

Liquidity coverage ratio (LCR)

A measure which aims to ensure that an entity maintains an adequate level of liquidity to meet its needs for a 30 day period under severe stress conditions.

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.

Minimum capital requirement

The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements.

Net stable funding ratio (NSFR)

The NSFR is a long-term stable funding metric, measured as the ratio of available stable funding to the amount of required stable funding.

Operational risk

Operational risk is the risk of loss and/or negative impact to the Society resulting from inadequate or failed internal processes, systems or people, or from external events.

Pillar 1

The part of the Basel III Framework which sets out the regulatory minimum capital requirements for credit and operational risk.

Pillar 2

The part of the Basel III 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). The TCR is an outcome from Pillar 2.

Prudential Regulation Authority (PRA)

The financial services industry regulator in the UK for prudential matters.

Risk-weighted asset (RWA) or risk-weighted exposure amount (RWEA)

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 structured entity in return for immediate cash payment. That entity raises the immediate cash payment by issuing debt securities in the form of tradeable notes or commercial paper to wholesale investors who receive an income from the underlying assets. The terms of the securitisation determine the balance of risk retained on the balance sheet and risk transferred to investors.

Standardised approach (to credit risk)

A methodology used to calculate capital requirements for credit risk. Under the standardised approach, the risk weightings within the calculation are specified by the regulator.

Standardised approach (to operational risk)

A methodology used to calculate capital requirements for operational risk which involves using three year historical net income multiplied by a factor of 12-18%, depending on the underlying business being considered.

Subordinated Tier 2 notes (Tier 2 Notes)

A form of Tier 2 capital issued by the Society.

Supervisory review and evaluation process (SREP)

The regulator's assessment of a firm's own capital adequacy assessment (ICAAP) under Basel III Pillar 2.

Tier 2 capital

A component of regulatory capital comprising qualifying subordinated liabilities.

Total capital requirement (TCR)

The amount and quality of capital a firm must maintain to comply with the minimum capital requirements under the Capital Requirements Regulation.



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