THE WEST BROM HAS BEEN HELPING PEOPLE BUY THEIR OWN HOMES FOR OVER 170 YEARS

Annual Report and Accounts

Year ended 31 March 2020

the West Brom

Contents

Key highlights of the 2019/20 financial year

New mortgage lending

£569m

£569m of new mortgage lending across an extended product range, a reduction from the previous year (2018/19: £691m) reflecting our strategy of only lending if it is in the best interests of our membership. At points in the year, the pricing available for the risk was not achievable in certain segments.

3%

increase in owner occupied lending balances

Lending to support home ownership leading to a **3% increase in owner occupied lending balances** (2018/19: 5%) and circa 50% of new mortgages to first-time buyers (2018/19: 42%), a segment at the heart of our mutual purpose.

49%

higher than market average

Delivering savers an average rate earned on their savings some **49% higher than the market average**[1] (2018/19: 45% above), delivering a benefit of £13.0m (2018/19: £11.4m).

Net Promoter Score

+73

Strong levels of **customer satisfaction of 96%** (2018/19: 94%) and **Net Promoter Score**®[2] **of +73** (2018/19: +72) significantly ahead of the Financial Services benchmark (+50).

Profit before tax

£1.5m

Statutory profit before tax of £1.5m (2018/19 (restated): £9.2m) after setting aside additional provisions for potential credit losses in Q4 of £14.7m, a significant proportion being in respect of the anticipated economic impact arising from the COVID-19 pandemic.

Common Equity Tier 1 (CET 1)

15.9%

A strong capital position with a **Common Equity Tier 1** (CET 1) **capital ratio unchanged at 15.9%** (2018/19 (restated): 15.9%) despite the increased provisions for potential credit losses resulting from the COVID-19 pandemic lockdown.

6%

reduction in non-core commercial loan book

Further progress in reducing exposure to the legacy lending portfolio with a **6% reduction in the non-core commercial loan book** (2018/19: 9%).

Further improvements in our digital offering

The launch of a major investment programme in our core systems to enable **further improvements in our digital offering**.

[1] Average market rates sourced from Bank of England Bankstats table A6.1

[2] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Chairman's Statement

Although it was only at the turn of the year that the world first became aware of the existence of a new virus, COVID-19, and what has become a terrible human tragedy, the impact on our reported results has been disproportionate. Of course the wider economic and financial consequences of the pandemic, as significant as they may transpire to be, do not warrant comparison with the loss of life. At West Brom, our primary concern has been to continue to operate for our members, but in a way that puts people safety at the forefront of how we do this. In the Chief Executive's Review there is more detail on how we have approached managing the Society through this period, and how the year's results have been impacted.

Given the above, our results demonstrate the Society's strength. Whilst the statutory profit before tax has fallen from £9.2m to £1.5m, without the final quarter provision charge of £14.7m (which largely arose in anticipation of the potential consequences of the pandemic), profit before tax would have been significantly higher. However, it is our responsibility to act prudently and whilst we accept that it is very difficult to predict the future impact on our economy of the lockdown triggered by the pandemic, we believe it is right to recognise that the government's support measures may be insufficient to avoid business failures and the consequential impact on employment. For that reason, we have considered some plausible scenarios that may play out, and set aside additional provisions for potential credit losses. It is for that reason that our published statutory profit reduced to £1.5m.

Underpinning this performance has been our comprehensive offering of Purpose-led lending, such as loans to first-time buyers and those seeking a pathway into home ownership via shared ownership. Serving these segments of the housing market, as well as paying our savers consistently above the market average, means we continue to deliver on our mutual values.

The economy

With a majority government having been returned in December and the first period of Brexit uncertainty brought to a close with the signing of the Withdrawal Agreement in January of this year, it did appear that the property markets might stabilise. The housing market, which had fallen according to indices in the final quarter of the year, showed signs of heightened activity and average values stayed in reasonably strong positive territory year on year, a 3% annual increase by March 2020.

Although the picture for savers across the year remained relatively benign, with general interest rates remaining very low by historical standards, total household savings grew in 2019 by £64bn; considerably more than the £47bn seen in 2018, possibly due in part to more positive earnings growth.

Of course the actions required to protect as many people as possible from the risks introduced by the COVID-19 virus will, as I have already mentioned, have an impact on the economy, although at the time of writing assessing how severe this will be, in terms of the extent and duration, is extremely difficult. Although the sheer extent of government support for the economy may shorten the downturn our view is that some longer lasting consequences are unavoidable.

Our commitment is to do all we can to support our members through these difficult times. We have already offered extensive support to borrowers who have been impacted in the short term, through mortgage payment holidays. For savers, who for the last decade had endured the impact of ultra-low interest rates, the reversal of the modest Bank Rate increases of the last few years, and moreover reduction to a new historic low of 0.10%, is obviously unwelcome. We have maintained our position of paying rates materially above the market average, and we will strive to continue doing so.

Regulation

Operational resilience has continued to receive a keen focus across the year and the lockdown created by the COVID-19 pandemic has taken us to a situation considerably beyond previously tested scenarios. Again, the Chief Executive's Review gives more detail on this.

The Financial Conduct Authority (FCA) is currently consulting with financial services providers on the potential introduction of a 'Single Easy Access Rate'. This would mean that, whilst banks and building societies would still be able to offer introductory rates for up to 12 months for easy access savings accounts and easy access ISAs, after this the rate must return to the institution's own single easy access rate. The intention of this is to ensure that all savers benefit from competition in the market and is something that the Society would be supportive of, although we have expressed some concerns over whether the regulation proposed will achieve that in practice.

Also worth highlighting are recent changes to the 'Responsible Lending Rules' which support a particular segment of borrowers who it is believed may be 'trapped' in a position whereby they are paying more for their mortgage than may be necessary. These are borrowers who are already demonstrating that they can afford their mortgage payments and, as a result of the rules, will not have to undergo the stringent absolute affordability tests that have been prominent since the 2008 financial crisis should they wish to move to another lender. The Society is supportive of this initiative and is working to ensure it has the necessary arrangements in place to support these borrowers.

Governance

At the West Brom we are committed to operating strong, effective governance focused on delivering positive and fair outcomes for the Society's stakeholders. The Financial Reporting Council (FRC) produces an Annual Review of the UK Corporate Governance Code. In its January 2020 edition, it highlighted the importance of financial services firms interacting with the wider set of stakeholders to deliver sustainable value and benefit the economy, environment and wider society. We have full engagement with our key stakeholder groups – primarily members and employees – through our Member and Employee Councils. Both have provided valuable input into ultimate Board decisions on important topics, ranging from executive remuneration to product and service developments. We also work closely with key suppliers, which has resulted in proposed changes, for example, to employment conditions for the employees of some suppliers.

An important governance matter that has been addressed this year has been the appointment of a new External Auditor of the Society. KPMG LLP has served as the Society's Auditor for some 27 years and it is now proposed that PricewaterhouseCoopers be appointed as the new auditor for the financial year 2020/21 onward.

Board changes

James Turner will be standing down as a member of the Board at the forthcoming Annual General Meeting due to the demands of his full-time executive role and relocation abroad. I would like to record the sincere gratitude of the Society to James for his strong contribution.

I am delighted to welcome David Thomas as our latest Non-Executive Board Member; bringing in his considerable experience in risk management.

Looking forward

The unfolding COVID-19 crisis suggests that there are significant challenges ahead for our economy, which will impact both our borrowing and saving members. We stand ready to support the financial wellbeing of our members, as we have done for over 170 years. We have had to make a substantial number of adjustments over the last few months in order that we can deliver the essential services required. I would like to thank our members for their tolerance and patience where this has impacted them. I would also like to thank, on behalf of the Board and our members, all our colleagues who have continued to ensure we operate during these extremely challenging times.

Mark Nicholls
Chairman
2 June 2020

Chief Executive's Review

Challenging and uncertain times

The COVID-19 pandemic and the unprecedented actions required to minimise what is first and foremost a tragic human crisis has, despite representing only a small part of the Society's financial year, had a very significant impact on our results. Of course, the economic consequences of the lockdown period are secondary to the terrible human cost. Our prime focus has, therefore, been to ensure that we continue to deliver the essential services that allow our members to manage their financial affairs. At the most fundamental level, this means having access to their money when needed, subject to our being able to maximise the safety of both staff and members. Before detailing the financial impact, and presenting a wider review of the year, the section below outlines the approach we have taken to the dual objective of maintaining operations while protecting people.

Our response to the crisis: keeping people safe and maintaining access to key services

The Society has always ensured that detailed plans were in place for events that would severely disrupt operations; whilst these resiliency plans did not contemplate a scenario as severe as that which has regrettably become a reality, they were able to be scaled up quickly to meet the challenge. This has resulted in our essential services to members remaining operational across the period to date, albeit at a reduced level in one or two instances to maintain our overriding safety objective. I would like to take this opportunity to thank members for bearing with us where we have made changes to our usual service arrangements in the interests of health and safety.

In addition to maintaining services, we have also needed to develop, without notice, new ways of operating in order to deal with requirements emerging specifically out of the government's lockdown arrangements. For example, the agreement to allow mortgage borrowers affected by the crisis to take a payment holiday, resulted in mortgage related calls into our contact centre increasing by 37%, as we accommodated requests from over 5,000 of our mortgage borrowers. The vast majority of these requests were dealt with by a rapidly developed online solution, removing waiting times on the telephones and the need for borrowers to visit our branches. This also reduced anxiety as borrowers' applications were very quickly accepted and the payment holiday confirmed.

Other measures we've taken over the last three months to support both our members and our people include:

- The removal of all notice and penalty periods across our savings range to support those members who have a need to access their money sooner than planned for;
- Increased flexibility on the use of third party withdrawals to allow friends and family to access essential funds for those members self-isolating or vulnerable;
- Prioritising calls into our contact centre from key workers; and
- Reducing the number of people working in our head office by up to 90% through extensions of our homeworking capabilities.

Whilst our actions have resulted in a proportion of colleagues experiencing reduced hours or periods without any work, much of what has created this 'dormancy' has been a direct consequence of our decision to put the safety and wellbeing of people first. A combination of that 'choice' and the Society's fundamental financial strength which derives from the capital reserves we have built up specifically to protect our members in times of economic stress, meant that the Board did not consider it correct to place employees on the government's furlough scheme, rescind offers of employment already issued or consider any redundancies for the remainder of 2020. Importantly, every employee, regardless of the hours we have required them to work, has not suffered any reduction in pay.

Needless to say, this response continues to be underpinned by the enormous hard work, flexibility and commitment of our people and our suppliers. I would therefore like to thank our staff for the contribution they have made in helping the Society to meet the immediate financial needs of our members across a period of considerable operational challenge.

Financial strength and providing for the impact

As with the financial impact on the economy, the longer-term impact on the Society is, as yet, unquantifiable with any degree of confidence. The sheer scale of the government's various support initiatives for individuals and businesses is targeted at making the economic impact short, even though severe. Our challenge has been to try and anticipate what this may mean for the Society.

As a result of our efforts to anticipate, as best we can at this stage, a plausible range of outcomes, our financial performance across the year has been disproportionately impacted by the lockdown introduced on 23 March. The most material impact has been in terms of provisions for potential credit losses, primarily in respect of the legacy commercial lending exposures that remain, with an additional £12.1m of provisions in the final quarter largely as a result of the potential impacts on key sectors, such as retail and leisure, from the pandemic. In terms of our residential mortgages, the impact at this stage is expected to be less severe, with the position coming into the lockdown reflecting the credit quality of these exposures. At 31 March 2020, 3 month arrears rates across both our Owner Occupied and Buy to Let portfolios at 0.33% and 0.28% respectively (2018/19: 0.36%, 0.12%), remained well below the industry averages of 0.82% and 0.37% as published by UK Finance. In addition our residential lending portfolio continues to be predominantly low loan to value, with 74% (2018/19: 71%) of all our loans being 75% LTV or less. Despite this, we still set aside an additional £2.6m in Q4 to provide for potential losses in our residential loan books.

3%

increase in owner occupied lending balances

Despite these additional Q4 provision costs, which total £14.7m, the Group has recorded a statutory profit before tax of £1.5m (2018/19 (restated): £9.2m) for the year. Had these additional provisions not been required, profit before tax would have been significantly higher. While it is prudent to set aside these amounts, I must stress that it is extremely difficult, if not impossible, to predict the impact on the economy of this pandemic. A great deal depends on the success of the government's support schemes. This means we cannot discount further credit loss provisions being required.

£1.5m

Profit before tax
(2018/19 (restated): £9.2m)

However, the Society is sufficiently capitalised to absorb such further provisions if required. Despite the additional provisions made, the financial strength of the Society, as measured by its Common Equity Tier 1 (CET 1) capital ratio, ended the financial year unchanged at 15.9% (2018/19 (restated): 15.9%). As a comparison, during the financial crisis of 2008/09, the Society's Core Tier 1 capital ratio was 6.8%. In the years since that crisis, the strategy has been to build up capital to cope with the most extreme of economic shocks.

15.9%

Common Equity Tier 1 capital ratio
(2018/19 (restated): 15.9%)

In simple terms the work we have done over the last 10 years, to rebuild the Society and realign it to a traditional building society directed towards a Purpose of enabling home ownership and generating sustainable levels of profit, has placed the Society in the best possible position to face the challenges that the next period of our existence will inevitably bring.

A more detailed assessment of the Society's financial position for the financial year ended 31 March 2020, including our performance against key indicators of business performance, is considered within the Strategic Report section that follows.

Commitment to Purpose

Our Purpose as a building society is grounded in supporting the financial wellbeing of members. This is achieved by providing safe, good returns through our savings products and promoting home ownership through responsible mortgage lending. We also provide a range of other insurance and investment products from our chosen third party partners.

Delivering on this commitment requires a careful balancing of what can appear to be the competing interests of two sets of members - savers and borrowers. Managing these interests fairly means we only grow the Society at levels, and in markets, where sustainable returns can be evidenced. This means accepting mortgage returns that are in the best interests of the membership as a whole, and do not reduce the interest rate we are able to pay our savers below what is fair or expose the Society to any unacceptable risk. This mutual approach helps to direct the development of our mortgage proposition to the Purpose-led lending markets, particularly those in which a genuine home ownership need exists.

A safe, good return for savers

In what has been a highly competitive marketplace, our approach to managing the interests of savers over the last 12 months has been to preserve rates for existing members rather than to grow new savings balances at their expense and, where we have been forced by the market environment to make changes, to apply these as fairly as possible. I am pleased to say that across the year we have continued to deliver on our commitment to provide savers with a safe and good return by paying an average interest rate 49%[1] (2018/19: 45%) above that paid by the market which, in monetary terms, represents an additional £13.0m (2018/19: £11.4m) in interest directly to savers. This represents a very meaningful contribution in what has, even prior to recent emergency measures, remained a very low interest rate environment.

49%

higher than the market average rate paid to savers (2018/19: 45% above)

As members may be aware, attention from competition authorities and financial services regulators has focused on savings providers' pricing practices, specifically the difference between the interest paid to new customers compared to existing customers. The Society's approach to this is to offer the best rate at the time in terms of what is fair, when compared against the rates of equivalent products offered by high street savings providers. The results of this pricing approach are evident in the difference in interest rate paid to new and existing customers, being less than half the market average differential – proof of our commitment to provide savers with a good, fair return regardless of how long they have chosen to remain a Society saver[2].

Promoting home ownership

Throughout the year our mortgage proposition has continued to be led by our commitment to enable people to have a place to call home, whatever form that may take, extending a further 3,423 new mortgages, circa 50% (2018/19: 42%) of these to first-time buyers.

As forecast in my half year review, in value terms, at £569m (2018/19: £691m), our gross new lending was lower than the previous year, due to a conscious decision to scale back lending where returns would prove uneconomic or where pricing would be irresponsible for the associated risk. Of course, the effective closure of the housing market throughout the lockdown will affect volumes in 2020/21 but it is not possible to estimate the extent with any certainty.

£569m

New mortgage lending (2018/19: £691m)

Our Purpose for borrowers means we place as much focus on who we lend to as how much we lend. Over successive periods we have developed our product set considerably, from a very simple purchase and remortgage range to include specialist products for first-time buyers, borrowers looking to remortgage with a help to buy equity loan, along with self-build and assisted options for those looking for support from a sponsor. In support of successive governments' drive for more affordable housing options, our new range of shared ownership products has proved particularly popular, supporting 481 borrowers to become part homeowners through both lower initial deposits and more affordable monthly payments.

As with our savings members, we recognise that our commitment to mortgage members extends beyond new borrowers, ensuring existing borrowers are afforded equal access to switch to a new product at the end of their fixed or discounted period. During the year we have worked hard to ensure that all our borrowers eligible to switch are notified around four months prior to the end of any initial fixed or discounted rate period and again at regular intervals until their rate ultimately reverts to the Society's Standard Variable Rate which, following recent amendments, remains amongst the lowest charged by any building society. Also we ensure that existing borrowers, either at product maturity or at any time they wish to switch, have access to a range of product options priced at rates, and with terms, that are at least as good as those offered to new borrowers. Our work and investment to improve the experience of borrowers in this area has been considerable, with maturing customers now contacted and able to switch in a way which suits them: in branch, over the phone, via post, online and by mobile.

Service development in a digital world

Further improvements in our digital offering

In a financial services industry where providers seek to differentiate themselves on the service they provide to customers, the Society continues to take pride in maintaining outstanding levels of service across all our customer interactions – in branch, via the telephone, via post, online and increasingly by mobile. Across the year our Net Promoter Score®[3] (how likely customers are to recommend us) has increased to +73, which is well ahead of the industry average for Financial Services of +50, with customer satisfaction also increased at equally impressive levels to 96% (2018/19: 94%). These metrics provide us with confidence that the level of service provided by our people is of the very highest standard and that this is valued by our members.

[1] Average market rates sourced from Bank of England Bankstats table A6.1

[2] The difference in the rate paid to Society members opening a non-ISA savings account in the last 12 months compared to those who have held equivalent accounts for over 5 years was 0.2%. This compares to an equivalent market differential of 0.42% as revealed by the FCA's analysis in CP20/1.

+73
Net Promoter Score
(2018/19: +72)

With service being a key differentiator in why customers choose to use or stay with providers, we understand that we can't take performance against these metrics for granted and must constantly challenge ourselves to improve and innovate, particularly by harnessing the benefits that digital service solutions can bring to solving simple problems. Across the year we have delivered a number of digital service extensions, including the launch of a *'track my mortgage'* portal, allowing new customers to view the status of applications, which has been used by over 3,000 customers and brokers since it went live. We also introduced live chat services across our consumer website. To improve our digital capability further, therefore, we launched a programme to update our core savings platform and introduce, over the next two years, new features that will enhance our digital capability. This will be a very significant investment and bring our various channels into one core system, which will deliver efficiencies, enhanced customer experience and a capability to adopt changing digital technology.

A safe and responsible approach to risk

6%
reduction in the non-core commercial loan book (2018/19: 9%)

Over the course of the year our gross exposure to legacy higher-risk commercial real estate loans has reduced by £27m (6%). Our strategy for reduction of the book continues to be guided by our detailed knowledge of individual loans held, which has been developed over the course of a full economic cycle, and ensures any decision to exit is taken in the interests of members so not to unnecessarily impact the capital position. This decade-long strategy has resulted in associated balances being reduced from a peak of £1.7bn to their current position of £417m and with £23m of these balances securitised, effectively transferring the risk away from the Society, commercial exposures are now 75% less than they were 10 years ago. Provision coverage for potential losses, including the additional provisions as a consequence of the potential long term impact for the COVID-19 pandemic referred to earlier, increased to 20%. In addition, a further £50m of capital has been set aside should the economic scenario be significantly worse than that currently forecast by the Bank of England's Financial Planning Committee. This means that through a combination of provisions and capital, the loss coverage is over 30% of total exposures.

Throughout the year the Society has continued to develop its Purpose-led, prime owner occupied residential lending strategy. Delivery of this strategy has seen associated balances increase by 3% over the period, with total prime owner occupied balances now increased by 114% since the Society made the decision to restart lending in 2012 following the financial crash. Despite the expansion of the Society's prime owner occupied lending the credit quality has been maintained with only 0.03% of lending undertaken since 2012 now being 3 months or more in arrears. The Society's commitment to supporting home ownership remains simple and very much supports our long-term strategy to reduce exposure to legacy commercial assets.

Building capability through our people

We recognise that the simplest way to improve the capability of the Society is to support and invest in the development of our people. As an employer, we take this responsibility seriously and throughout the year we have supported 26 staff to study for professional and vocational qualifications. We also support a diverse range of roles and qualifications from information technology and data security to a Masters in Strategic Leadership, in partnership with Loughborough University. We are now seeing the investment come to fruition with 85% of those studying further developing their careers within the Society.

Along with capability, diversity is also an essential ingredient of good decision-making with our diversity and inclusivity agenda focused on developing a culture in which all colleagues feel included and able to contribute to the future of the Society. As one of the original signatories to the Women in Finance Charter we are pleased to report that female representation on the Society's Board and within the Senior Management population now stands at 38% and 35% respectively, with the first six candidates to our newly launched talent programme also being female, not because of their gender but because of their stand-out capabilities.

Connect, our diversity and inclusion group, supports our people to understand, celebrate and value all aspects of diversity

In addition to the external targets we have set ourselves for gender diversity, we continue to champion the diversity that comes with the majority of the Society's operations being located in one the most ethnically diverse regions in the UK, with 30% of the Society's workforce being drawn from ethnic minority communities. As shall be evidenced later in this report, our diversity and inclusion group – Connect – continues to play an active role in supporting our people to understand, celebrate and value all aspects of diversity.

[3] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Best in class stakeholder engagement

As covered in greater detail in the Corporate Social Responsibility section of this report, we have continued to foster meaningful links with our various community and charity partners. Our charity of the year, nominated and voted for by colleagues, has been the Midlands Air Ambulance Charity with fundraising events across the year contributing in excess of £30,000 in donations which will go towards supporting the lifesaving work this service provides across the region. In addition to our fundraising activities, colleagues have once again provided over 700 volunteering hours, providing direct support to small local charities within our immediate operating area.

The West Brom raised in excess of £30,000 for Midlands Air Ambulance Charity over the last 12 months

Ensuring the views of the Society's primary stakeholders, members and employees are considered in a formal way as part of our decision making structures has, for a number of years, been one of my personal endeavours. We now pride ourselves on the way we have given substance to stakeholder engagement through our Member and Employee Councils; this is best in class amongst the industry.

The Members and Employee Councils met four times across the year, discussing strategic items such as Director Remuneration, Product and Service Development and Pay and Reward Structures

Across the year these groups have met four times with all meetings chaired by members of the Society's Board – including me, our Group Finance & Operations Director and Non-Executive Directors. Topics discussed have included strategic items such as Directors' Remuneration, Product and Service Development, Pay and Reward Structures and Corporate Social Responsibility, with views from both Councils shared with the Executive Committee and directly with the Board for consideration as part of formal decision making and to inform the development of the Society's strategy. I would like to take this opportunity to thank those members and employees who have given their time and effort to make the Councils a success over the last 18 months.

Looking forward

Uncertainty of outlook has become a consistent theme of my reports for the last few years, with Brexit and geopolitical and economic tensions conspiring to create a sense of unpredictability in the markets in which we operate. Those drivers of uncertainty, however, pale into a level of insignificance against what has unfolded in the last few months, presenting not only enormous challenges to the safety and soundness of markets but to the safety and soundness of everyday life, where remaining in good health and having a source of income is something that is perhaps now less taken for granted.

Over the first six months of the new financial year our energy will be focused on continuing to maintain the critical services on which our members depend and those which are integral to support the foundations of the UK economy. Providing these services in a way that is safe and responsible, so as not to unwind what we have achieved over the last decade, will be paramount. We have built a Society that has a sustainable business model and robust capital base, capable of withstanding a range of severe shocks to the economy.

As I have said consistently over the last decade the Society has been on a simple mission. A mission to repair our business model and transform the balance sheet to be reflective of what a building society should be - an organisation that lends savers' money for the purpose of putting people in homes in a way that is safe and responsible. Our progress against this mission is manifest with over 95% of our new lending now in support of our primary Purpose, home ownership, and 76% of all our funding provided by our loyal retail savers. The challenges of the immediate environment are very different to the ones we saw a decade ago and I take an enormous amount of confidence from the progress the Society has made throughout this period, with the Society being well positioned, both financially and operationally, to meet the challenges that lie ahead; far stronger than it was when facing the financial crisis of 2008/09.

In closing, I must again thank all of my colleagues who have worked so conscientiously to ensure our services have been maintained, and thank our members for helping us to respect our 'people, safety and wellbeing first' approach to this pandemic. More than ever, we do not take your support for granted.

Jonathan Westhoff
Chief Executive
2 June 2020

Strategic Report

Our strategy

Our strategy continues to remain unchanged and is focused on the simple delivery of our Purpose – supporting the financial wellbeing of our members by providing a safe and good return on the savings they entrust with us and promoting home ownership through responsible lending. Our Purpose guides the development of our business model, primary activities and strategic priorities.

We deliver saving, investment, mortgage and insurance products through our 36 branches, direct and online services and intermediary partnerships. Our broad range of savings and investment products aims to offer simplicity of terms, security of deposit, and a good rate of return. Savings members' deposits support the Society in its aim of promoting home ownership to borrowers who can evidence their ability to service their commitments. Providing residential mortgages, funded in the main by member deposits, remains firmly allied to our mutual model.

Our strategy recognises the importance of the role of the UK housing market to the wider economy, society and in turn to meet the home ownership ambitions of our membership. We continue to develop our mortgage product range to cater for individual borrower needs in the residential lending space and more recently in the Limited Company Buy to Let area.

The Society also holds, via its property investment subsidiary West Bromwich Homes Limited, a portfolio of residential properties. These generate rental income and provide quality homes for those in the rented sector.

The Society's ability to offer high quality products and services continues to be supported by the effective management and reduction of non-core lending. Since 2009, we have been managing down these exposures further to achieve the most favourable economic outcome on behalf of members.

Allied to the mutual model the Society continues to make long-term strategic investments in systems to ensure product, service and supporting capabilities continue to meet the needs of both current and future members and remain operationally resilient.

Our business model

The Society's business model is aligned to its Purpose and strategic objectives. The diagram below sets out the tenets of the business model which are key to delivery of our Purpose - supporting the financial wellbeing of members.

Our Funding:

The vast majority of our funding comes from our retail savers, supported by funding from wholesale markets.

- Retail deposits
- Wholesale funding

Our Profits:

We use the difference between our income and our costs to deliver value through our products and services, investing in the future of the Society and maintaining our financial strength through our levels of capital.

- Value through our products
- Investment in our future
- Maintaining safe levels of capital

Our Lending:

Our funding is used to support our lending activities. The vast majority of which is residential lending to home owners and borrowers supporting the private rented sector. A relatively small proportion of our funding continues to support our legacy lending books which are in run-off.

- Lending for home ownership
- Lending to support the private rented sector
- Lending to legacy positions

Our Income:

We generate income through the difference in the rates we charge to borrowers and pay savers, the sale of selected third party financial products and our role as a responsible landlord.

- Net interest margin
- Other income
- Role as a responsible landlord

Our Costs:

We use our income to run the business efficiently; paying our people, our suppliers, maintaining our branch network and head office. We also provide for any losses and pay our taxes.

- Our people, property and equipment
- Our suppliers
- Provisions for bad debts
- Taxes

To support the above business model the Group is organised into three main business segments, which allows the Society to focus strategic intent on the delivery of our Purpose whilst maintaining a concentrated effort to manage the orderly run-off of non-core activity.

Retail - retail saving products offered through branch, direct and online with residential lending delivered through branch, direct and intermediary channels. We also offer a range of investment and insurance products through our third party partnerships in support of broader financial wellbeing. This segment also includes responsible buy to let lending to limited companies in support of the private rented sector.

Property - a portfolio of residential properties held to generate rental income. The Group recognises its role as a responsible landlord with the portfolio actively managed by a well-respected property management company. The Board acknowledges the inherently fluctuating nature of revaluation gains/losses associated with the portfolio to both the benefit/detriment of the Group's financial performance. The Board continues to manage the portfolio economically in the long-term interests of the membership.

Commercial real estate - the historic provision of finance for commercial real estate investment which is deemed strategically as non-core.

The above business segments are supported by central functions which provide Finance, HR, IT, Compliance, Risk Management and Change capabilities.

Funding is reviewed at a Group-wide level with Treasury and Finance functions managing day-to-day cash flow, along with providing wholesale funding and ensuring allocation of capital and liquidity.

Our Strategic Framework

Our Purpose

Supporting the financial wellbeing of our members by providing a safe and good return on their savings and promoting home ownership through responsible lending.

Our Strategic Intent

Customer	Safe & Responsible	Efficient	Future Ready	People
'Developing products & services that support the principles of our Customer Proposition - individual, ease and trust'.	*'Understanding the risks we take and making responsible decisions that generate sustainable levels of retained profit'.*	*'Driving efficiencies in our processes and structures to improve the customer experience and level of member value'.*	*'Investing in and delivering the change required to meet the needs of current and future members'.*	*'Investing in the development of our people and creating a diverse and inclusive working environment to improve our organisational capacity'.*

How we are progressing

Across the year we have made good progress against our five statements of strategic intent that help us deliver our Purpose to members. Just some of this progress is detailed below:

Customer

- Net Promoter and Customer Satisfaction maintained at exceptionally high levels evidencing the outstanding service our colleagues provide to customers.
- Increased the level of mutual benefit paid by the Society to its saving members by increasing the rate we pay above the market average to 49%.
- Continued with the development of our mortgage proposition by introducing new products and criteria targeted at supporting individual borrower segments. Our shared ownership range targeted at helping borrowers access more affordable forms of housing has proved particularly popular.
- Awarded a Five Star Service Award for the service we provide to our valued intermediary partners.
- Extended digital services by introducing a 'track my mortgage' portal to our customer website alongside live-chat facilities.
- We have also continued to invest in our core systems projects to develop our retail savings digital proposition and enhance our mortgage application system.

Safe & Responsible

- Maintained our financial strength, with a CET 1 capital ratio of 15.9% (2018/19 (restated): 15.9%).
- Delivered statutory profit before tax of £1.5m (2018/19 (restated): £9.2m) after the impact of additional Q4 provision charges of £14.7m. Had these additional provisions not been required, profit before tax would have been significantly higher.
- Continued to reduce legacy commercial exposures.
- Maintained arrears rates across our owner occupied and buy to let lending books at levels well below industry averages.
- Maintained our net interest margin at a level sufficient to ensure sustainable returns on lending, to provide relatively good returns to our saving members and to retain adequate capital in a highly competitive and challenging market environment.
- Raised over £30,000 for our chosen charity of the year and contributed over 700 hours in volunteering to local community projects.

Efficient

- Reduced our core operating costs (excluding depreciation) by £4.4m and reduced our overall management expense ratio to 0.83%.
- Continued a review of cost structures across the Society to deliver operational efficiencies to re-direct expenditure to investment in business systems and to deliver value to members.
- Introduced a number of self-service options to improve the ease with which customers can do business with us and increase operational capacity.

Future Ready

- Completed a long term project to upgrade our Mortgage Application System.
- Launched a new digital information and communication hub for our colleagues to work from and engage with – WeBe.
- Upgraded our customer website providing a safe, reliable and flexible platform for future development.
- Invested in digital upgrades to our mortgage customer journey providing mortgage customers and brokers the ability to switch online and via mobile.
- Continued to progress with the design of a new system for online savings.

People

- Invested in professional qualifications for 26 of our colleagues.
- Held 12 meetings of our diversity and inclusivity group 'Connect' and celebrated events ranging from Diwali to Black History Month.
- Exceeded targets for Female Representation at Board and Senior Management Levels.
- Completed a review of pay bandings and reward structures to provide transparency and a clear link to our Purpose.

Our Key Performance Indicators have been aligned to the key elements of our Strategic Framework.

Key performance indicators

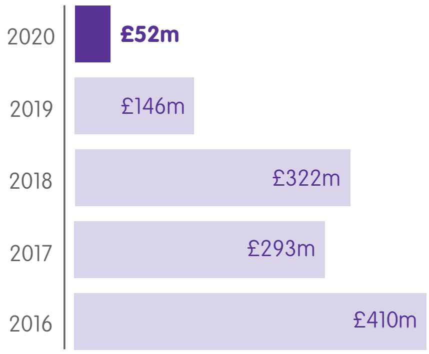
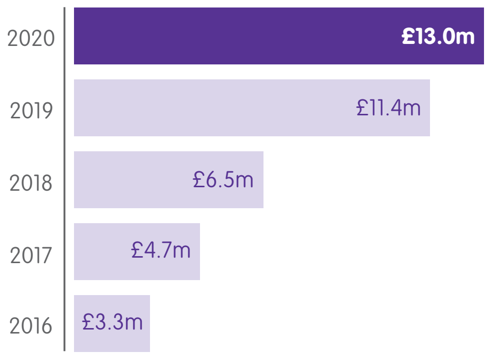
The Society monitors and assesses its performance against strategic objectives using a range of financial and non-financial key performance indicators (KPIs). The Society's KPIs are selected to support the Society's strategic pillars which are, 'Customer', 'Safe & Responsible', 'Efficient', 'Future Ready' and 'People'. These KPIs, and the Society's performance against each, are described below. KPIs for our Future Ready pillar are currently only used internally to measure performance against the application of digital technology.

Customer

Key performance indicator	Measure	Performance	2020 analysis
Customer satisfaction	Following a branch visit or call to our Customer Services department, members are asked to rate us across a number of different measures, including how easy they found the West Brom to deal with. A customer satisfaction score is subsequently captured.	2020: **96%** 2019: 94% 2018: 94% 2017: 93% 2016: 93%	Customer satisfaction scores remain consistently high – a reflection of our customer centric approach.
Net Promoter Score® (NPS®)[1] – customer satisfaction	A measure of how likely a customer is to recommend the West Brom's products and services. First used by the Society in 2017/18, the NPS ranges between -100 and +100.	2020: **+73** 2019: +72 2018: +65 2017: N/A 2016: N/A	Our positive Net Promoter Score shows that our high service standards continue to be recognised by our membership.
Gross residential lending	Delivering the Society's core Purpose of home ownership, this is the value of residential lending advanced this year.	2020: **£569m** 2019: £691m 2018: £837m 2017: £712m 2016: £673m	Gross residential lending has reduced year on year reflecting the competition in the mortgage market. The Society remains focused on responsible lending that delivers an appropriate level of return and diversifying its product range through Purpose-led lending such as shared ownership schemes, and sponsor assisted mortgages further promoting first-time buyer lending.

[1] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Customer (continued)

Key performance indicator	Measure	Performance	2020 analysis
Net owner occupied lending	Gross residential owner occupied lending less repayments of principal and redemptions. This includes all owner occupied lending, including non-traditional elements (e.g. Shared ownership, Help to Buy, Self-Build and Assisted mortgages) and excludes buy to let lending. This measure reflects growth in the owner occupied lending book and reflects both new lending and customer retention.		Since re-entering the prime owner occupied residential lending market in 2012, the lending balances in this area have grown by 114%. The position in 2020 reflects lower gross lending due to increased competition in the owner occupied market and improved retention levels.
Member mutual benefit	The Society's average savings rate above the rest of the market is paid in mutual benefit to our savings members.		We paid an average rate of 1.01% compared to the market average of 0.68%[2], enabling the Society to deliver a healthy £13.0m in mutual benefit to our members.

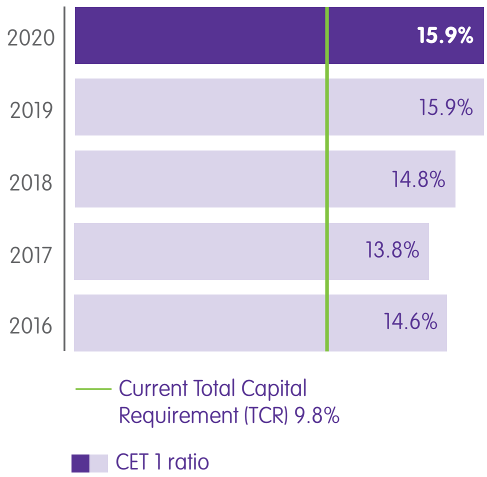
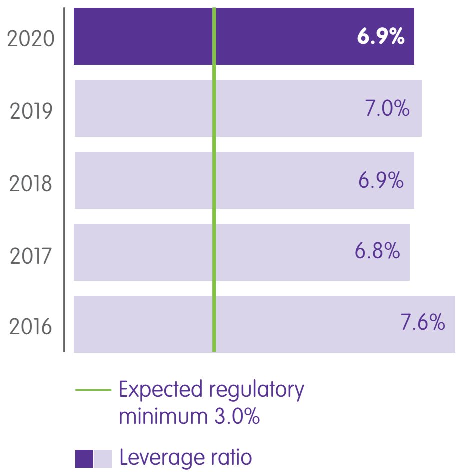
[2] Average market rates sourced from Bank of England Bankstats table A6.1

Key performance indicators (continued)

Safe & Responsible

<table>
<tr><th>Key performance indicator</th><th>Measure</th><th>Performance</th><th>2020 analysis</th></tr>
<tr><td>Common Equity Tier 1 (CET 1) ratio</td><td>Common Equity Tier 1 (CET 1) capital is the highest quality form of capital for a financial institution, comprising retained earnings, other reserves and qualifying CET 1 capital instruments.

The CET 1 ratio, calculated as CET 1 capital divided by risk-weighted assets, is a measure of financial strength and is required to be maintained above a regulatory threshold.

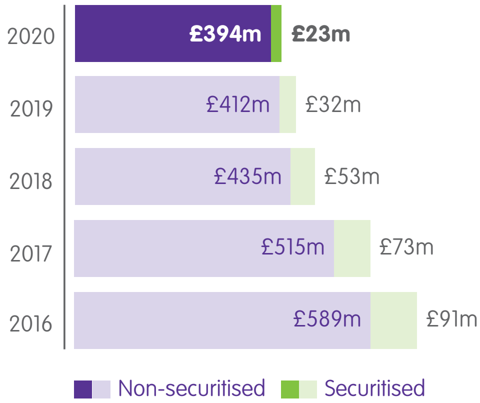
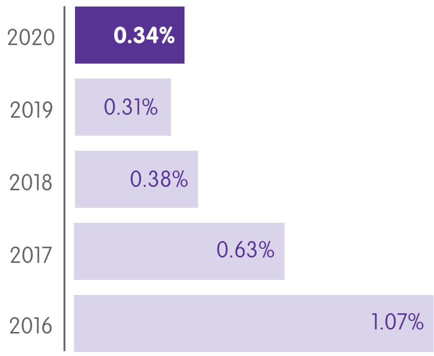
The 2019 CET 1 ratio has been restated.</td><td></td><td>CET 1 capital remained at a strong and stable position during the year, as a result of profit generation and a reduction in risk-weighted assets. The CET 1 ratio was maintained comfortably in excess of our regulatory Total Capital Requirement (TCR) throughout the year.</td></tr>
<tr><td>Leverage ratio</td><td>Measured as Tier 1 capital divided by total leverage exposure, the leverage ratio provides another capital strength performance indicator which is held above the expected regulatory minimum.</td><td></td><td>At 6.9%, the leverage ratio remains significantly above the regulatory threshold and compares favourably with others in the sector.</td></tr>
</table>

Safe & Responsible (continued)

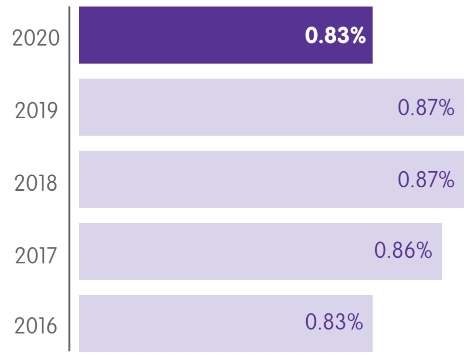
Key performance indicator	Measure	Performance	2020 analysis
Profit before tax	The 2019/20 figure represents underlying profit before tax which excludes the impact of one-off items being the gain on deconsolidation of securitisation entities, the write down of goodwill and the impact of hedge ineffectiveness. Although the economic impact of COVID-19 began to be experienced towards the end of our financial year, the resulting impact to provisions and profit has been significant. Whilst 2018/19 statutory profit has been restated, this does not change underlying profit. In 2015/16 and 2016/17 underlying profit before tax excluded the effect of additional interest charged and subsequently reimbursed on certain buy to let mortgages. For 2017/18 and 2018/19 profit before tax is as reported in the Income Statement. Profit contributes to capital which provides financial resilience and facilitates future investment.	2020 **£1.6m** 2019 £10.5m 2018 £8.8m 2017 £7.7m 2016 £4.8m	Underlying profit before tax reduced in the year, primarily as a result of increase in impairment provisions. An additional provision charge of £14.7m was recorded in Q4 largely as a result of uncertainties caused by the emergence of the COVID-19 pandemic. Had these additional provision charges not been required, profit before tax would have been significantly higher.
Net interest margin	Net interest margin is calculated as net interest income expressed as a percentage of mean total assets. The drivers of this measure are the level of return received from assets held and the interest paid on borrowings.	2020 **1.06%** 2019 1.03% 2018 0.96% 2017 0.95% 2016 1.06%	Our net interest margin improved in the year, reflecting our continued focus to lend responsibly within a highly competitive market that enables safe returns to savings members. Availability of low cost non-retail funding and improved earnings on free capital also contributed to the year-end position. The rate cuts implemented by the Bank of England towards the end of our financial year are expected to impact our net interest margin in the next financial year. As a mutual, it is not our objective to maximise margin but to manage interest income at a level that covers costs, enables investment in the future and maintains a strong capital position.

Key performance indicators (continued)

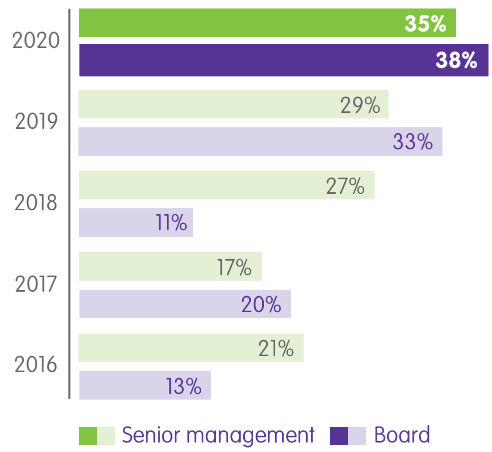
Safe & Responsible (continued)

Key performance indicator	Measure	Performance	2020 analysis
Exiting non-core positions	Exiting the commercial real estate sector has been a longstanding strategy of the Board and is measured by the reduction in the gross carrying value of non-core commercial gross exposures, which totalled £1.7bn in 2008/09.		We continue to make good progress against this strategy. Non-core commercial mortgage balances have continued to reduce annually, down 6% in the year to £417m at 31 March 2020. Of the remaining exposure, £23m is securitised thereby transferring the residual risk out of the Group.
Core residential arrears	The Board measure is the number of cases where the borrower has missed more than three monthly payments, as a proportion of the total number of loans.		Core residential arrears remain low, reflective of the high quality residential mortgage portfolios and proactive approach to credit management. At 0.34%, the level compares favourably against the published UK Finance average of 0.74%. It is still too early to fully assess the impact of the economic disruption arising as a result of COVID-19 including the resulting payment holidays, and potential knock on impact on arrears. In line with regulator guidance, where borrowers are granted a payment holiday, this will not automatically count towards arrears.

Efficient

Key performance indicator	Measure	Performance	2020 analysis
Cost efficiency	The management expense ratio is a measure of cost efficiency, reflecting costs (including depreciation and amortisation) as a percentage of mean total assets.		Despite a reduction in total assets, a targeted reduction in our cost base through restructuring led to a reduction in the management expense ratio. There remains continued focus on managing the cost base to deliver greater efficiency for our members. Excluding depreciation the Society's costs reduced by 14.0% over three years and 10.3% against last year.

People

Key performance indicator	Measure	Performance	2020 analysis
Gender diversity	The Society is a signatory to the Women in Finance Charter and has targets for female representation of at least 30% on the Board and in senior management by the end of 2020.		The 30% target for female representation has been exceeded at both Board and senior management levels.

Financial review

Financial performance

Summary income statement

Year to 31 March Income Statement overview

	Group 2020 £m	Group 2019 Restated £m
Net interest income	**59.1**	58.5
Fees, commissions and other income	**6.3**	6.6
Fair value losses on financial instruments*	**(8.5)**	(5.7)
Gain on deconsolidation of commercial securitisations	**5.3**	-
Write down of goodwill	**(0.5)**	-
Total income	**61.7**	59.4
Management expenses	**(46.2)**	(49.5)
Gains on investment properties	**4.2**	2.6
Impairment on loans and advances	**(17.5)**	(3.0)
Provisions for liabilities	**(0.7)**	(0.3)
Profit/(Loss) before tax	**1.5**	9.2
Taxation	**-**	(1.2)
Profit/(Loss) for the financial year	**1.5**	8.0

*Fair value losses include fair value losses on derivatives used to hedge commercial loans of £4.0m (2018/19: £2.7m), included within the amounts presented in note 5 to the accounts.

Statutory profit before tax reduced to £1.5m in 2020 (2018/19 (restated): £9.2m), including the impact of Q4 COVID-19 related impairment allowances. Had these additional provisions of £14.7m not been required, profit before tax would have increased significantly. The Society's commercial portfolio includes lending to the retail sector which remains particularly sensitive to changes in market sentiment and levels of consumer activity. Even before the impact of COVID-19 began to be felt, this sector had been suffering the effects of headwinds in the market environment. As previously noted, the Group revisited assumptions used in its Expected Credit Loss (ECL) calculations as a result of the pandemic and the introduction of UK government support schemes that followed. This has resulted in a significant increase in the impairment charge as explained below.

The summary below shows a year on year comparison of underlying profit before tax excluding the deconsolidation gain, goodwill write down and hedge ineffectiveness. The reduction in profits reflects an increase in impairment charge (including the fair value charge on derivatives used to hedge commercial loans) and improvements in net interest income, gains on investment property and management expense. The results for 2018/19 have been restated as explained in note 43.

Year to 31 March Reconciliation of statutory to underlying profit before tax

	Group 2020 £m	Group 2019 £m
Statutory profit before tax (2018/19: restated)	**1.5**	9.2
Gain on deconsolidation of commercial securitisations	**(5.3)**	-
Goodwill impairment	**0.5**	-
Hedge ineffectiveness	**4.9**	1.3
Underlying profit before tax	**1.6**	10.5

Net interest income

Net interest income improved in the year by £0.6m to £59.1m (2018/19: £58.5m), with the net interest margin at 1.06% (2018/19: 1.03%). The improvement in asset yields and the positive impact of lower cost non-retail funding made available by various Bank of England schemes has been offset by the increase in retail saving rates.

Bank Rate has remained at a low level, with two consecutive cuts in March 2020 taking the rate to a record low of 0.10% at the year end.

The competition in the UK mortgage market continued to intensify in the last financial year.

The Society moderated its lending in the second half of the year as the targeted risk adjusted returns on capital were not achievable. Through the year the Society continued its focus on Purpose-led lending with a range of product propositions which included an increased proportion of lending to first-time buyers and additional lending through the launch of its shared ownership range.

As a result, overall asset yield improved by 0.07% in the year. This, combined with lower non-retail costs (explained above), enabled the Society to pay 0.10% higher rates on average to retail savings members. We paid our savers 0.33% above the market average for the 12 months to 31 March 2020 (31 March 2019: 0.29%). This represents a considerable £13.0m (2018/19: £11.4m) provided in mutual benefit to savers.

Fees, commissions and other income

The Society partners with a number of providers to offer home insurance, financial advice, will writing, life cover and funeral planning. Fees and commissions of £2.3m (2018/19: £2.6m) were earned on these products and services, which are made available to support our members' wider financial wellbeing.

In its capacity as a responsible landlord, the Group earned net rental income of £4.0m (2018/19: £4.1m) on residential properties let through the subsidiary company, West Bromwich Homes Limited.

Fair value losses on financial instruments

The Society is exposed to income statement volatility through changes in the fair value of financial assets and liabilities which are held at fair value through profit or loss (FVTPL).

The fair value movements on derivative financial instruments, used purely for risk management purposes, are offset in the income statement but only where the conditions for applying hedge accounting are met.

Of the £8.5m fair value losses (2018/19 (restated): £5.7m losses) in the year:

- £0.1m (2018/19: £1.7m) relates to the closed equity release portfolio. The market outlook during the year showed an improved house price index (HPI), which reduced the fair value losses compared to the prior year.
- £4.0m (2018/19: £2.7m) represents fair value movements on derivatives held to hedge impaired commercial loans for which the criteria to apply hedge accounting are not met. The volatility arises from changes in the market view of interest rates and is largely offset within impairment on commercial loans and advances.
- The balance relates to fair value movements on interest rate swaps held to hedge the Society's mortgage pipeline, before an effective hedge relationship can be established and the element of ineffectiveness in the hedge relationships which still meet hedge effectiveness criteria; the latter has resulted in a £1.3m prior year adjustment as detailed in Note 43.

Management expenses

Over the last three years the Society has embarked on a Cost Efficiency Programme which has delivered a £6.2m (14.0%) improvement in administrative expenses (excluding depreciation) in absolute terms absorbing inflation and pay-award increases. Management expenses have reduced by 6.7% to £46.2m from £49.5m in 2018/19 leading to a reduction in the management expense ratio to 0.83%, compared with 0.87% in the prior year.

Through benchmarking and peer analysis we identified target areas over which to focus our cost reduction efforts. This included a review of processes and resource requirements in these target areas.

There has been an increase in IT business investment during the year with an increase in depreciation from £6.9m to £8.0m (of which £0.4m relates to depreciation of right-of-use assets under IFRS 16). This is expected to continue into the near future to ensure the Society remains at the forefront of technological change to meet customer expectations with particular focus on front end digital capability. Once this investment has been delivered we expect to see further cost benefits across the Society.

Gains on investment properties

The Society provides residential housing for rent through its subsidiary company, West Bromwich Homes Limited. The portfolio includes substantial investments concentrated in the West Midlands, the South West and South Wales.

House price inflation has been positive in the year to March 2020, especially in the areas of concentration. During the year, the market value of the properties held rose by £4.2m compared with £2.6m in the previous year.

Impairment on loans and advances

The table below analyses the impairment charges on loans and advances in the year:

Year to 31 March Impairment on loans and advances

	2020 £m	2019 £m
Other residential loans	**2.9**	1.2
Commercial loans	**14.6**	1.8
Total impairment	**17.5**	3.0
Fair value movement on derivatives held to hedge impaired commercial loans	**4.0**	2.7
Total impairment and related charges	**21.5**	5.7

Residential impairment

Impairment charges on the residential loan portfolio are based on expected credit loss (ECL) calculations which take into account the credit risk of the loans and assumptions of future economic scenarios in line with IFRS 9 requirements.

House price index (HPI) forecasts have been positive in the financial year to March due to positive employment conditions and the competition in the mortgage market supporting demand. The impairment charge for the year has increased to £2.9m (2018/19: £1.2m). The onset of the COVID-19 pandemic, together with government support schemes such as offering of payment holidays to borrowers, has resulted in a post model adjustment of £1.0m to the residential impairment provision.

Group arrears have remained at low levels, evidence of the superior credit quality of new residential lending.

Commercial impairment

All commercial loans are individually assessed using cash flow scenario modelling, which considers a range of possible outcomes to calculate ECL requirements.

Commercial impairment charges of £14.6m were recognised for the year compared with £1.8m in 2018/19. After adjusting for the offsetting movements in derivatives held to hedge the impaired loans the net charges were £18.6m and £4.5m for the current and prior year respectively.

Commercial provision balances at £81.8m (2018/19: £70.7m), represent 19.6% of the current loan book (2018/19: 15.9%). The commercial property sector has continued to be vulnerable to economic uncertainty, especially in the retail sector which has seen unprecedented levels of deterioration recently and which forms over half of the Group's commercial portfolio. See note 33(c) (iii) to the accounts for an analysis of the commercial portfolio by industry type.

The increase in commercial provision charge during the year is attributed to the worsening economic outlook and more pessimistic assumptions for the retail sector. The impact of COVID-19 is estimated to increase the impairment charge by £12.1m in the final quarter. This is factored in to the commercial provisioning process through revised assumptions for the purpose of the ECL calculations.

At 31 March 2020, 58% (2018/19: 58%) of non-core commercial balances were managed by a Law of Property Act Receiver (LPAR), appointed to assist in the management of future cash flows and debt recovery.

The exit from the commercial property sector, which is deemed non-core, remains a strategic objective.

Provisions for liabilities

The payment protection insurance (PPI) deadline passed in August 2019, which led to a surge in complaints at the time. Provisions were raised at the half year following the increase in complaints received and were subsequently utilised through to the year end, which has reduced the required liability to cover any outstanding amounts. The current year Income Statement charge of £0.7m accounts for the increase in complaints received in the run up to the aforementioned deadline.

Taxation

There is no corporation tax charge for the year (2018/19 (restated): charge £1.2m). This is as a result of utilisation of brought forward tax losses and the recognition of deferred tax assets, based on amounts expected to be recoverable within the next five years.

The Society fully complies with HMRC's Code of Practice on Taxation for Banks and has controls in place to ensure it maintains appropriate tax accounting arrangements, with oversight provided by the Audit Committee and the Board.

The Society maintains an open, honest and transparent relationship with HMRC engaging with the tax authority, where applicable, to mitigate any uncertainty arising in relation to tax planning or compliance matters. The Society's tax strategy has been published on its website.

Further analysis of the tax charge is given in note 9 to the accounts.

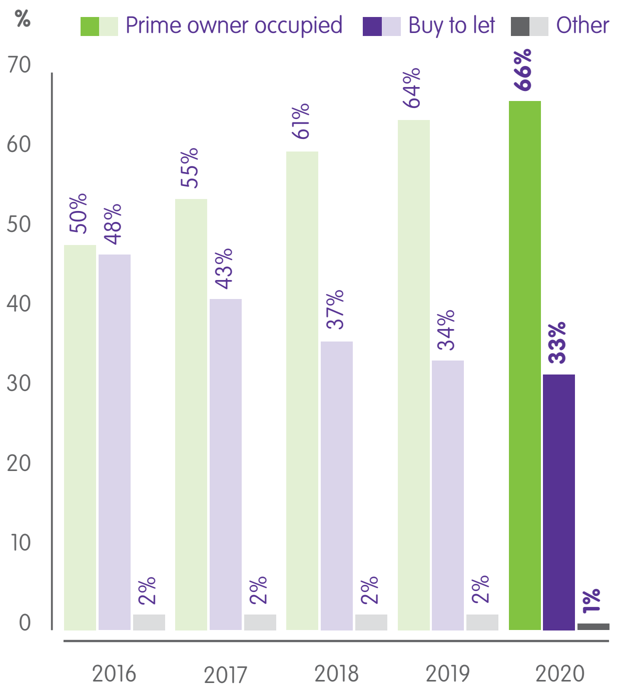
Financial position

Summary statement of financial position

At 31 March	**Group 2020 £m**	Group 2019 Restated £m
Assets		
Residential loans and advances	**4,356.2**	4,371.8
Commercial loans and advances	**335.4**	373.6
Liquid assets	**672.4**	598.5
Derivative financial instruments	**4.5**	6.5
Fixed and other assets	**208.3**	202.2
Total assets	**5,576.8**	5,552.6
Liabilities		
Shares	**3,846.1**	3,991.2
Wholesale funding	**1,230.7**	1,089.1
Derivative financial instruments	**54.2**	39.3
Other liabilities	**62.0**	47.9
Total liabilities	**5,193.0**	5,167.5
Equity		
General reserves	**246.5**	246.0
Other equity instruments	**135.9**	135.9
Other reserves	**1.4**	3.2
Total equity	**383.8**	385.1
Total liabilities and equity	**5,576.8**	5,552.6

Residential loans and advances

Analysis by lending type at 31 March 2020



Total residential loans and advances remained broadly stable year on year. New prime residential lending in the year was £569m (2018/19: £691m). The Society has remained committed to providing responsible lending for its customers and not to lend at rates that risk depleting capital; ensuring that Targeted Risk Adjusted Return on Capital is met. The Society also recorded an increase in retaining existing mortgage customers.

The composition of the residential book remains consistent with prior years, in-line with the Board's strategy of rebalancing the mortgage portfolio by increasing the proportion of prime owner occupied loans. The legacy buy to let portfolio reduced to 33% of the total residential book compared to 34% in the prior year.

The Society's Purpose of supporting people into their homes continued throughout the year. We launched shared ownership mortgages providing members who are unable to buy their home outright with the opportunity to get onto the property ladder. Our ongoing commitment to assisting first-time buyers with purchasing their own home accounted for circa 50% (2018/19: 42%) of all new borrowers in the year.

At 31 March Residential loans analysis by region

	2020 %	2019 %
East Anglia	**2.7**	2.9
East Midlands	**10.4**	10.5
Greater London	**11.0**	11.3
Northern Ireland	**0.1**	0.1
North	**4.3**	4.4
North West	**12.3**	12.3
Scotland	**2.1**	2.2
South East	**16.6**	16.4
South West	**8.4**	8.3
Wales	**5.1**	5.0
West Midlands	**16.7**	16.7
Yorkshire	**10.3**	9.9
Total	**100.0**	100.0

The Society provides online and intermediary distribution channels to ensure accessibility across the United Kingdom. The lending portfolio is geographically diverse, with prominence in the West Midlands where most of the Society's branch network is based. Whilst significant proportions of lending are to the South East and Greater London the proportion remains reflective of the UK mortgage market.

At 31 March 2020 Group arrears

	Total balances £m	3 months+ %
Prime owner occupied	**2,857.7**	**0.33**
Buy to let	**1,422.9**	**0.28**
Other	**45.7**	**2.79**
Core residential	**4,326.3**	**0.34**
Second charge lending	**10.3**	**11.11**
Total residential	**4,336.6**	**0.50**

At 31 March 2019 Group arrears

	Total balances £m	3 months+ %
Prime owner occupied	2,797.3	0.36
Buy to let	1,503.2	0.12
Other	50.9	2.93
Core residential	4,351.4	0.31
Second charge lending	12.4	9.48
Total residential	4,363.8	0.45

Our residential lending exposure remains low risk. Group arrears are measured as the number of cases where a borrower has missed more than three monthly payments as a proportion of the total number of loans. At 31 March 2020, Group arrears for the core residential book was 0.34% (2018/19: 0.31%) which compares favourably against the UK Finance average of 0.74% (2018/19: 0.78%).

The sustained low level of arrears is reflective of the Society's conservative lending policy and effective credit management practices, against a backdrop of low UK unemployment.

Commercial loans and advances

At 31 March Commercial loan portfolio

	2020 £m	2019 £m
Non-core commercial balances excluding securitisation	394.5	411.9
Securitised commercial balances	22.7	32.4
Impairment provisions	(81.8)	(70.7)
	335.4	373.6

The non-core commercial loan book has continued to reduce in-line with the Board's long-term strategy of exiting from the commercial property sector. The commercial loan book is included within loans fully secured on land (FSOL) in note 13. Balances reduced by 6% from £444.3m to £417.2m, of which £22.7m (2018/19: £32.4m) is held within structured entities, where there is no residual risk exposure for the Group. Non-core commercial exposures have reduced to just 25% (2018/19: 26%) of their peak position in 2008/09 at £1.7bn, which represents a material shift in the de-risking of the balance sheet over the course of the last decade.

Liquid assets

At 31 March 2020 Liquidity portfolio

	£m	%
Cash and balances with the Bank of England	263.5	39.2
Supranationals	55.5	8.3
Covered bonds	149.4	22.2
Mortgage backed securities	80.4	12.0
Other securities	0.0	0.0
Subsidiary/other liquidity	123.6	18.3
Total liquidity	672.4	100.0

At 31 March 2019 Liquidity portfolio

	£m	%
Cash and balances with the Bank of England	182.5	30.5
Supranationals	71.2	11.9
Covered bonds	143.9	24.0
Mortgage backed securities	71.1	11.9
Other securities	23.1	3.9
Subsidiary/other liquidity	106.7	17.8
Total liquidity	598.5	100.0

The Society fulfils its financial and lending obligations by holding liquid assets. During the year, liquidity was maintained at sufficient levels to cover operational cash commitments, in excess of regulatory and Board limits.

The liquidity portfolio yields modest returns relative to the costs of raising funds. The Society therefore holds off-balance sheet liquidity, which can be readily converted to cash, where such funding arrangements are available at a lower cost.

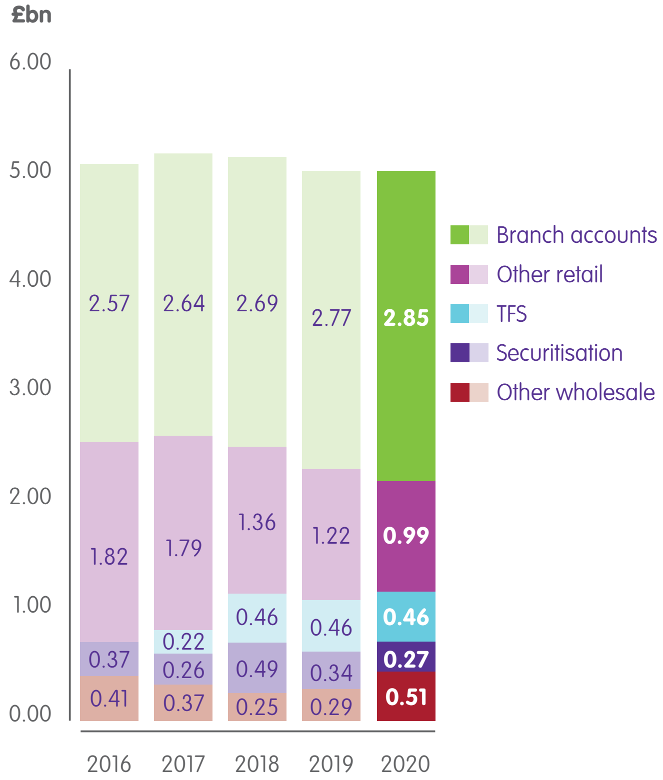
Liquidity holdings comprise high quality liquid assets, with treasury investment securities rated at least single A or held with a Globally Systemically Important Counterparty. The Group has never experienced a default on its Treasury investment portfolio. The liquid asset impairment provision requirements at 31 March 2020 were negligible for both the current and prior year.

At 31 March 2020, the Society's Liquidity Coverage Ratio (LCR), which measures its ability to meet cash outflows in the event of a stressed scenario, was 188% (2018/19: 195%), comfortably above the regulatory minimum of 100%.

The Net Stable Funding Ratio (NSFR) measures the proportion of available stable funding to the required amount of stable funding, representing a longer-term liquidity indicator than the LCR. Based on the Society's interpretation of the requirements, the NSFR at 31 March 2020 was 131% (2018/19: 132%), compared with a regulatory requirement of 100%.

Funding

Funding balances

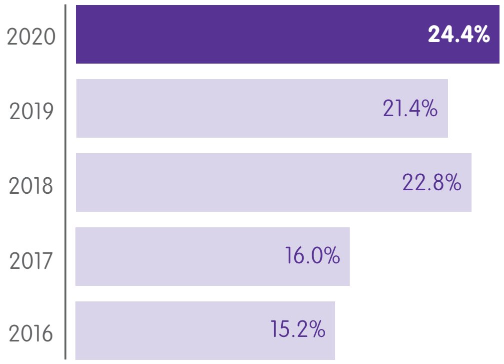


The primary source of funding for the Society, as a mutual, is from retail deposits. Retail savings balances reduced by 4% in the year to £3.85bn (2018/19: £3.99bn). The Society continued to offer competitive products to its members, which saw an increase in the proportion of funds held in branch-based accounts from 69% to 72% of total member deposits.

Savings balances make up 75.6% (2018/19: 78.6%) of total funding with the remainder being derived from wholesale sources. Accessing the wholesale markets can reduce the overall cost of funding and mitigate risk by diversifying the funding pool.

Wholesale balances increased to £1.25bn (2018/19: £1.09bn), which increased the ratio of wholesale funding as a proportion of total shares and borrowing to 24.4% (2018/19: 21.4%).

Wholesale funding ratio



The Society has participated in the available Bank of England funding schemes, which offer low cost funding arrangements, utilising residential mortgage-backed securities and residential mortgages as collateral. At the end of the year 27.1% (2018/19: 26.5%) of assets were encumbered to support Bank of England and other wholesale funding initiatives, as detailed in note 39 to the accounts.

Capital

At 31 March

	Transitional CRD IV rules 2020 £m	Full implementation of CRD IV 2020 £m	Transitional CRD IV rules 2019* £m	Full implementation of CRD IV 2019* £m
Members' interests and equity	**383.8**	**383.8**	385.1	385.1
Permanent interest bearing shares (PIBS) deduction	**(8.9)**	**(8.9)**	(8.9)	(8.9)
Other adjustments[1]	**(1.6)**	**(29.7)**	5.9	(25.5)
Common Equity Tier 1 (CET 1) capital	**373.3**	**345.2**	382.1	350.7
Additional Tier 1 capital	**8.9**	**-**	8.9	-
Total Tier 1 capital	**382.2**	**345.2**	391.0	350.7
Tier 2 capital[2]	**21.6**	**21.6**	21.6	21.6
Total regulatory capital resources	**403.8**	**366.8**	412.6	372.3
Risk weighted assets (RWA)	**2,347.5**	**2,308.5**	2,400.2	2,321.3
Leverage ratio exposure	**5,569.6**	**5,569.6**	5,588.7	5,588.7
Capital ratios	**%**	**%**	%	%
Common Equity Tier 1 ratio (as a percentage of RWA)	**15.9**	**15.0**	15.9	15.1
Common Equity Tier 1 before IFRS 9 transitional arrangements (as a percentage of RWA)	**15.0**	**15.0**	15.1	15.1
Tier 1 ratio (as a percentage of RWA)	**16.3**	**15.0**	16.3	15.1
Total capital ratio (as a percentage of RWA)	**17.2**	**15.9**	17.2	16.0
Leverage ratio	**6.9**	**6.2**	7.0	6.3

*2019 capital ratios have been restated as explained in note 43 to the accounts.

[1] Other adjustments mainly comprise IFRS 9 transitional arrangements and deductions for intangible assets and deferred tax.

[2] Tier 2 capital comprises subordinated liabilities excluding accrued interest.

Capital is held for the ultimate protection of depositors and to provide a sufficient buffer to absorb unexpected losses. The Society is required to maintain thresholds set by the Prudential Regulation Authority (PRA) and our capital is assessed under the Capital Requirements Directive (CRD IV). Requirements are continually monitored to ensure minimum regulatory requirements are always met. At 31 March 2020, our Common Equity Tier 1 (CET 1) capital comprised of accumulated retained profits in general reserves, core capital deferred shares (CCDS) and other reserves.

The Society's Common Equity Tier 1 (CET 1) ratio at 31 March 2020 was unchanged at 15.9% (2018/19 (restated): 15.9%), remaining strong and well in excess of the Society's Total Capital Requirement (TCR) which, at the end of the year equated to 9.8% of risk weighted assets. The leverage ratio also remains exceptionally strong at 6.9% (2018/19: 7.0%), in excess of the expected regulatory minimum requirement of 3%.

Transitional arrangements have been utilised in relation to the adoption of IFRS 9 and its phased impact to regulatory capital. On adoption in the last financial year, a reduction in general reserves was recognised due to an increase in commercial provision requirements. Over a five year period, the additional impairment provisions are deducted from CET 1 capital in accordance with the rules set by the Regulator.

Had the transitional arrangements not been in place, the CET 1 ratio at 31 March 2020 would have been 15.0% (2018/19 (restated): 15.1%) and the leverage ratio would have been 6.4% (2018/19: 6.5%).

The Society's current capital position satisfies the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) regulation, being phased in over a transitional period ending in 2021/22.

During the year the Society paid £0.64m as an interim dividend on the Society's CCDS. A final dividend of £0.64m was declared in May 2020 and will be payable in August 2020. Given the uncertainties in the economy and the markets in which the Society operates, future payments of dividends are subject to uncertainty.

No payments of interest to PIBS holders have been made during the year. Whilst noting that any interest payments on the PIBS are at the sole discretion of the Society, the Society announced during its capital restructuring in 2018 that any future payments on PIBS will be made only if and to the extent that they would have been permitted had the LME had not taken place, and in the context of determining the equivalent annual yield that would have been paid to holders of the Society's Profit Participating Deferred Shares (PPDS) had they remained in issue on their original terms. Under the terms and conditions of the PPDS (which are available for viewing on the Society's website), the Society's ability to pay PPDS distributions was constrained by reference to a percentage of profits generated in the relevant financial year, and to the extent of any positive balance on a special PPDS reserve account (to which a percentage of profits or losses of the Society was allocated each year).

Whilst PPDS instruments no longer exist (having been exchanged during the LME), the Society continues to monitor a notional PPDS reserve. At 31 March 2018 (the last accounting date before the completion of the LME) the deficit on the PPDS reserve stood at £9.1m. At 31 March 2019, £2.5m (equivalent to 25% of retained profits (as restated as detailed in note 43) after adding back costs of Tier 2 instruments, net of tax) was added to the notional PPDS reserve, reducing the balance to £6.6m. For the year ended 31 March 2020, the Society generated a reported net profit of £1.5m, including the impact of £2.5m Tier 2 interest payable. The net profit disregarding Tier 2 interest (after tax) would therefore have been £3.5m. Accordingly, during the year the notional PPDS reserve deficit reduced by £0.9m (25% of £3.5m) leaving a deficit of £5.7m at 31 March 2020.

The Bank of England's Financial Policy Committee (FPC) introduced the Capital Conservation Buffer (CCoB) in 2016 and a Countercyclical Capital Buffer (CCyB) in 2019, which together effectively form a minimum level for the Capital Planning Buffer (CPB). The CPB is designed to ensure that the Society has sufficient capital to absorb the adverse consequences of a severe but plausible scenario, whilst maintaining capital above the minimum regulatory capital requirements for CRD IV. The current CCoB requirements are to hold 2.5% of risk-weighted assets. The CCyB rate was reduced to 0% in March 2020 in a response to the growing concern of the widespread disruption of COVID-19. The rate had been 1% and was due to increase to 2% in December 2020 and this increase has also been cancelled.

Further details of our capital position are given in the Pillar 3 disclosure document, published on the Society's website.

Principal risks and uncertainties

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

The separate Risk Management Report on pages 33 to 39 identifies the principal risks and uncertainties faced by the Society and describes, in detail, the West Brom's approach to risk management.

Financial outlook

The UK economy throughout the financial year has been impacted by concerns over the UK's departure from the EU and, in the final quarter, by the negative financial markets reaction to the outbreak of COVID-19. With the UK having left the EU at the end of January 2020, the next steps of negotiating a trade deal with Europe continue to create uncertainty. The world-wide pandemic created by COVID-19 prompted the Bank of England to reduce Bank Rate to a historic low of 0.10% to ease the economic disruption for UK businesses and households. The levels of uncertainty of the global impact of COVID-19 remain high, which could lead to further weakening of the economy. Although the UK government has been quick to react and implement measures to support business and mortgage borrowers, disruption is expected in the short term, and the long term impact of the crisis remains unclear including the prospect of negative interest rates in the medium term.

In March 2020, the Bank of England introduced a new Term Funding scheme with additional funding for Small and Medium-sized Enterprises (TFSME). This scheme will offer an inexpensive source of funding to support the Society's lending objectives. As interest rates are now anticipated to remain at a low level throughout this uncertain period, the Society will remain true to its mutual Purpose by balancing the needs of its borrowing and saving members appropriately. The impact on the mortgage market is uncertain, but it is expected to remain subdued for the remainder of 2020 with recovery in 2021. Our responsible, Purpose-led lending approach will seek out growth opportunities without impacting our savers adversely. Despite unprecedented support from the UK government, the reduced GDP, and higher unemployment will inevitably lead to increased levels of arrears and adversely impact the commercial property market further.

The Society has continued to deliver sustainable profits, maintain its robust capital position and further de-risk the balance sheet. Our continued investment in IT technology and infrastructure has remained a priority so we can provide the necessary support to our members and continue to strengthen further our operational resilience. While the current economic uncertainties unfold, the Society is well positioned and prepared to face the challenges which may emerge.

Customer research and engagement

Meeting with our members and carrying out regular research to get feedback helps us to understand how well our services are meeting the financial needs of our customers, and also identify areas in which we could look to improve. Gathering this feedback is incredibly important to us, so we have a number of ways that members can share their thoughts with us, with the key ones being:

- Voice of the customer – following a branch visit, call to our Customer Services department or an appointment with our Retail Mortgage team, members are asked to rate us across three different measures. They can also leave general comments and suggestions.
- Thematic research – we send our members surveys by post or email after they have completed certain product purchases.
- Customer panel – made up of mortgage and savings customers who respond to online questionnaires and help us with comprehension testing.
- Members' ViewPoint – these events seek face to face feedback from members in a relaxed and welcoming environment.
- Member Council – in 2019, we introduced our Member Council which has 15 Society members who met with us four times this year to discuss a variety of topical issues that affect both the day to day running of the West Brom, and its future direction.

> *"Being a part of the West Brom Member Council gives me the opportunity to have a say in how the Society moves forward, working together for the benefit of both the members and the employees.*
>
> *"The meeting environment created is one that allows open, honest and respectful discussion on agenda points.*
>
> *"It's probably a bit of a cliché to say that you feel you have a voice as member of the council but for me that's how it does feel."*
>
> ***Maxine***

Feedback scores recorded for the year were encouragingly high. Satisfaction ratings averaged 9.6 out of 10 (2018/19: 9.4 out of 10), a consistently strong performance. This current year is the first where we have asked for ratings on ease and the average net score was 85 out of 100.

Our Net Promoter Score was calculated at +73 (2018/19: +72), confirming that customers are very likely to recommend the West Brom based on the quality of their own experiences.

One of the ways we gather more detailed feedback is carrying out customer satisfaction surveys once a product or service has been provided. Currently these are targeted at mortgage applicants and customers receiving independent financial advice through our partner organisation Wren Sterling.

This helps us understand how the customer felt at all stages of the process, from their initial recommendation through to final delivery. The questions cover a range of topics from how knowledgeable the customer felt we were, the communication throughout the process and overall satisfaction. The results are monitored closely and reviewed on a regular basis, so we can take relevant learnings and use these to continue to improve our services.

As well as this, we have a customer panel of over 2,000 members that regularly complete online questionnaires on all aspects of financial services to help us shape our offering. Panel members are invited to carry out comprehension testing before we release new product information or user guides, to ensure we're launching the right products to meet our members' needs.

Finally, more recently we have sought the views of 16-18 year olds from a local Sixth Form College. The students took part in focus groups held in January 2020 where they provided an insight into their thoughts and expectations about their financial provider, services and saving aspirations. The students who aren't members of the Society also agreed to become members of a new research panel called 'Customers of the Future' which is aimed at gathering views of future customer needs.

Working closely with members, customers and colleagues enables us to continue to grow and shape what the Society will look like in the future, as well as deliver quality services that are right for our customers, right now. Involving such a cross-section of opinions and experiences ensures our decision making is always well informed with full consideration for our members' needs.

Engaging our Stakeholders

The Society's Board believes fundamentally that consideration of stakeholder views is an integral part of the Society's strategic development and long-term direction; it is part of the mutual ethos on which the Society was founded and continues to be guided by.

The Society goes to great lengths to ensure the perspectives of a wide range of stakeholders are included both formally and informally within its decision making structures.

As discussed further in the Corporate Governance section of this report on page 46, the UK Corporate Governance Code (the Code) provides the basis for the Society's approach to corporate governance.

This year a new requirement for firms required to comply with the Code has been introduced; to explain how directors have considered the views of stakeholders as part of long-term decision making, in the form of a Section 172 Statement. Although the West Brom, as a building society, is not required to comply with the Code, aligned to the Board's fundamental belief referred to above, the ability to evidence how the Society fulfils the obligations prescribed by the core elements of the new statement, form the essential virtues of our building society model.

Obligations included within the new statement, to the extent that these apply to a building society, require directors to act in the way they consider, in good faith, would be most likely to promote the success of the Society for the benefit of its members as a whole, and in doing so have regard to a number of key areas:

- The likely consequences of any decision in the long term;
- How the interests of employees are considered;
- How constructive relationships with wider stakeholder groups, including suppliers are fostered;
- How any community and environmental impacts of our operations are considered;
- How a reputation for high standards of business conduct is maintained; and
- The need to act fairly and balance the interests of members.

A summary of the Society's engagement with its key stakeholders is presented below.

Our Stakeholders	How the Board has considered views within decision making	How else we engage to ensure views are considered
Our Members - we exist as a building society to fulfil our Purpose to members. Listening to our members helps us develop our strategy in a way that is for their long-term benefit.	As referred to above our Member Council acts as a formal body that helps to inform the Board's long-term strategic decision making. Examples include a new structure for Executive Director Remuneration and the importance of extending the Society's digital capabilities.	• Management information supplied to the Board monthly covering key customer metrics. • An active programme of Members' ViewPoint Events providing an opportunity for members to ask questions of Executive Directors and senior management.
Our Employees - our people underpin the delivery of our Purpose to members. By listening to and acting upon the views of our people we create a culture that enables the delivery of our Purpose.	As referred to previously our Employee Council acts as a formal body that helps to inform the Board's long- term strategic decision making. Examples include the redesign of our Society Values structure for 2020/21 and a new approach to pay and reward.	• The ongoing activity of our Diversity and Inclusion employee group, Connect, which includes a member of the Executive. Further details of the activity of our Connect Group can be found on page 31 of this report. • The launch of a new internal Intranet platform WeBe, to allow open, transparent and conversational discussions across all of our people including the Executive. • A number of 'all hands' meetings from our Chief Executive providing an opportunity for our people to ask questions directly.
Our Communities - as a business we do not exist in isolation but form an integral part of the communities we serve. Listening to and understanding the role we play helps ensure our decisions remain sustainable.	To acknowledge the importance of our Community Relationships in creating a sustainable business, our Corporate Social Responsibility Programme which includes activities planned across the year is presented to the Board on an annual basis.	Details of our considerable community engagement programme can be found on page 29 of this report. They include: • A Society 'charity of the year' nominated and voted for by our People. This year's charity was the Midlands Air Ambulance Charity. • Our 'Money Go Round' financial education programme. • Our working relationship with Phoenix Collegiate in West Bromwich which has helped provide insight from younger generations to inform our customer research programme.

<table>
<tr><th>Our Stakeholders</th><th>How the Board has considered views within decision making</th><th>How else we engage to ensure views are considered</th></tr>
<tr><td>Our wider stakeholder groups - intermediaries, suppliers and investors - we recognise the reliance we have on a number of key third parties to support core elements of our business model. Listening to the views of these groups helps us foster constructive working relationships and is key to our mutual success.</td><td>The Board regularly receives updates from the working relationships we foster with our wider stakeholder groups. Across the year these have included:
• A live demonstration of our new intermediary mortgage application system.
• Representation from our chosen suppliers on the Steering Committee for our Core Savings System Transformation Programme, which also includes Executive members of the Board.
• Relationships with our wholesale investors are overseen by the Assets and Liabilities Committee.</td><td>• Annual engagement with our entire mortgage intermediary network in the form of an annual broker survey. Results of this survey are used to inform product, policy, process and service developments.
• Regular engagement with intermediary partners through events and roadshows. Listening to feedback from intermediaries led directly to the development of our new ‘track my mortgage’ portal discussed in the review by the Chief Executive on page 7.
• Regular attendance at supplier user groups which provide a constructive feedback loop between clients and providers.
• Engagement with investors through roadshows to support the development of constructive working relationships.</td></tr>
<tr><td>Our Environment - reducing and understanding the impact of the Society’s operations ensures we are able to support the financial wellbeing of generations to come.</td><td>Understanding and seeking to actively reduce the environmental impact of our physical operations is a growing priority of the Board. Action across the year has included:
• Considerable work to understand the environmental impact of our Investment Property subsidiary West Bromwich Homes Limited, with action being taken to ensure the portfolio meets the newly introduced EPC standards.
• The Society’s Chief Risk Officer being designated by the Board as the Senior Manager responsible for managing the financial risks associated with climate change in response to the PRA Supervisory Statement.
• Disclosures through the UK Streamlined Energy and Carbon Reporting (SECR) framework including the use from electricity, gas and transport fuel, as well as associated greenhouse gas emissions.</td><td>An environmental policy that requires the following aims and targets to be met through continuous improvement which includes items covering:
• Carbon neutrality;
• Energy and water;
• Waste;
• Travel and transport;
• Procurement;
• Health and wellbeing; and;
• Training, awareness, and communication.
Further details on this policy can be found on pages 31 to 32 of this report.</td></tr>
<tr><td>Our Regulators – as a dual regulated Financial Services firm having an open, transparent and constructive dialogue with our regulators ensures the decisions we make regarding our long-term future are safe and sound.</td><td>The Society’s Board maintains an open and transparent relationship with both the FCA and the PRA. Key engagement includes:
• The management of any actions raised by regulatory reviews at Board level with key updates provided at regular intervals; and
• Attendance of Board members both Executive and Non-Executive at key regulatory update meetings so the Society’s position is considered in light of emerging developments.</td><td>• Monthly updates provided on key regulatory items covered within the material supplied to the Board.
• Regular dialogue with regulatory supervisors covering principal risks and other matters.
• Regular regulatory ‘horizon scanning’ completed by our Legal and Regulatory team to ensure the Society is well informed regarding latest updates and actions required.</td></tr>
</table>

Corporate Social Responsibility

Making mutuality matter

As a leading financial organisation within its operating region, the Society is aware of the potential we have to improve the lives of local people by acting as a genuine force for good. This is expressed through the Society's commitment to corporate social responsibility, which is not some well-meaning aspiration but an ideal we actively pursue as a business for the benefit of the communities we serve.

Not taken for granted

In the past year, the Society has responded to requests for financial support from nearly 50 charities and community groups, most working at a grassroots level to alleviate the difficulty and disadvantage faced by many vulnerable groups across our region.

The Society does this by means of funding from our Community Account, an affinity savings product arising from the Society's well-established partnership with the Diocese of Lichfield.

Grants to help local causes are administered through the Mercian Community Trust, which has been formed from this partnership, and they have enabled us to provide much-needed assistance to causes covering a wide array of needs such as disability, bereavement, end-of-life care, domestic violence, environmental enhancement, homelessness, foodbanks, educational provision for young people, along with organisations concerned with the health of older people recovering from strokes, cancer, and cardiac events.

Such support is, in many instances, not simply a case of issuing a grant. Rather, the manager of the Society's nearest branch will personally present the cheque to the charity, which helps to deepen the links we have with our surrounding community while also opening up other opportunities for support.

This can be seen with a number of organisations where the Society has, in addition to financial funding, taken part in volunteering initiatives to further the quality of service for those supported by that charity. Via the Mercian Community Trust, the Society gave a grant to Roshni, a refuge for victims of domestic violence, to help provide play equipment for children. Volunteers from the West Brom then prepared for the equipment to be installed to make the play space safe and attractive for the residents and their children.

> *"The Society has been a tremendous supporter of Roshni in so many ways. The generosity of the grant was one thing but the time the staff gave to clearing the space for the equipment was absolutely priceless to us, in terms of time and cost. As a gesture of support and solidarity, this meant so much to us and our morale, knowing there are organisations out in the community who we can turn to for help."*
>
> ***Surwat Sohail (Chief Executive)***
> Roshni Women's Refuge

Taking fundraising higher

A major focus of the Society's commitment to the community is our fundraising efforts on behalf of a local charity, which is chosen by our staff. For this financial year, the Society has been raising funds for Midlands Air Ambulance Charity, which carries out over 3,400 missions a year via air ambulance and critical care car, responding to a potential fatality or major trauma injury.

As Midlands Air Ambulance Charity does not receive any funding from the government, NHS or National Lottery for its daily missions, it is very much dependent on the generosity of the public and local organisations, like the Society, which is why our backing is so valuable, especially when each air ambulance mission costs £2,500 and each critical care car mission costs £224.

In that sense, staff have been immensely committed and passionate in coming up with a repertoire of creative ideas, this has resulted in over £30,000 being raised for this vital lifesaving service. This has often involved staff from the Society giving up their own time to participate in fundraising events for the charity.

As well as raising funds, the relationship between the Society and Midlands Air Ambulance Charity has enabled us to raise awareness among members and staff of the charity's crucial work. For instance, fundraising days in the branches such as Go Red Day – the charity's brand colour, Christmas Jumper Day and National Hot Chocolate Day proved extremely popular. Alongside this, the Society's staff themselves have been able to attend the charity's main base at RAF Cosford to hear first-hand from the aircrew about the nature and necessity of their critical roles.

> *"From the very start, West Brom staff have simply been superb - they have shown tremendous amount of energy, creativity and determination in their fundraising endeavours! Their passion for the charity was clear, as they wanted to gain an insight into our clinical operations, which is why arrangements were made to meet our aircrew at our RAF Cosford airbase. The visit fuelled the Society's fundraising momentum and strengthened our partnership. Thank you to everyone at West Brom - the money raised will go a long way in supporting our vitally important lifesaving service across the Midlands region."*
>
> ***Emma Gray (Fundraising & Marketing Director)***
> Midlands Air Ambulance Charity

The value of volunteering

For the Society, being part of the community means engaging with it in ways that have a real meaningful impact. This is where volunteering is invaluable as an expression of our commitment to the community where staff give their time and talents for the sake of others. Its relevance and significance is indicated by the gratitude of charities and community groups but, for staff from the Society, volunteering has clear benefits too.

It can expand their understanding of what other people have to go through in life, giving them a sense of emotional satisfaction that their practical contribution is visible and appreciated.

Staff at the Society are entitled to two volunteering days every year and 160 colleagues took up this opportunity in the last twelve months – almost 20% of staff and a record number for the Society. In all, their efforts represented over 700 hours of volunteering on a wide variety of activities.

There was the regular Art Kart project at Birmingham Children's Hospital where volunteers used art to soothe the tension and tedium children may feel while waiting for their appointment.

Work with young people was also central to the Society's involvement with Queen Alexandra College (QAC) in Birmingham for young people with visual impairments and learning difficulties. Here, the Society's volunteers took part in QAC's outreach gardening project while they were also delighted to assist at the College's annual summer sports day.

At the other end of the age spectrum, colleagues from the Society renovated a therapeutic garden at Rowley Regis Hospital's specialist unit for people with dementia. That notion of environmental enhancement was evident too with a volunteering project at Saltwells Nature Reserve, a 'green' community resource for families within a congested urban setting.

As demonstrated on several occasions, volunteering is often one element within an overall relationship with a charity, QAC being an outstanding example. Here, the Society also funded the equipping of a sensory music room for students with learning difficulties while we've also taken advantage of the enlightening disability awareness days that the College lays on.

"The teams of volunteers from the West Brom have always brought an amazing passion and enthusiasm, whatever the challenge. What also impresses is their desire to be here and help. They have also taken part in awareness days, reinforcing why the support of the Society is so important to us. Because of this, we are proud to call the Society not just a corporate partner but a corporate friend."

Sarah Caldwell (Fundraising and Grants Manager)
Queen Alexandra College

Learning lessons on money

Giving children and young people a greater understanding of money matters has been an increasing priority for schools. In light of this, many schools, both at primary and secondary level, have found the Society's presentation on financial awareness – the Money-Go-Round – both timely and relevant in addressing this concern.

With an interactive and informative format, the presentation looks at the value of money (the cost of living, salaries earned by different jobs, what young people spend their money on); the meaning of money (the notion of the average salary and how to budget to cover typical household outgoings, along with an overview of related items such as a mortgage, insurance, loans and credit cards); the dangers of debt; and encouraging the habit of saving.

Since its inception five years ago, the Money-Go-Round has been presented at nearly 40 schools around the Society's branch network, encompassing an estimated 4,500 pupils.

Significantly, with some schools, it has become an intrinsic part of their curriculum while, in certain cases, it has led to other forms of collaboration. For instance, sessions on careers, CV writing, interview techniques, and ascertaining the views of young people when it comes to saving.

The Society's relationship with the Phoenix Collegiate in West Bromwich is an excellent example of this. Indeed, students from the academy have been selected for the Society's innovative Member Council to give a perspective on the situation of young people and how the financial services sector can respond to their particular circumstances and stage in life.

"The partnership with the West Brom has been a tremendous illustration of how an educational establishment can foster a really productive relationship with a highly-regarded local business. Learning more about the world of money and how to cope with essential financial demands and concepts is invaluable. And as we've also found, this partnership can have positive lessons for both organisations in so many ways."

Nicola Duffy (Teacher)
Phoenix Collegiate

The strength of partnerships

The Society's affinity partnerships have proved a way for customers to show their commitment to a specific organisation that might carry a particular resonance for them. It could be a local hospital, a partnership concerned with social disadvantage, or sporting bodies to facilitate opportunities for young people.

Customers are able to do this by saving with the Society through special affinity accounts where bonus payments, based on total savings held, are allocated on a yearly basis to those preferred organisations.

The Society's partnership with the Diocese of Lichfield is one such example where it is able to respond to pressing social need through the medium of the Mercian Community Trust.

Another longstanding and immensely successful partnership for the Society is with Birmingham Children's Hospital, which enjoys a richly-deserved reputation, nationally and internationally, for its treatment and care of children and adolescents. Thanks to the Society's Red Balloon Appeal, some £800,000 has been generated for the hospital since the affinity arrangement was launched in 2005. In the past, funds have gone towards the hospital's renal unit and Emergency X-Ray Appeal. More recently, it has contributed to funding a team of play and recreation facilitators, which is so essential when it comes to easing the experience of hospital for children.

"Being in hospital is often very nerve-wracking for a child and when they're anxious this can affect their response to treatment and powers of recovery. Play and recreation is therefore an essential part of a patient's experience as it gives them and their families a break from the stress of being unwell. It's why the support from the West Brom and its customers in funding this campaign is hugely appreciated."

Saranne Moreno (Corporate Strategic Partnerships Manager)
Birmingham Children's Hospital

Employee diversity

It is our view that diversity of backgrounds brings diversity of thinking and ultimately leads to a more successful business. For this reason the Society proactively seeks a diverse range of employees, and continually looks for ways to ensure colleagues of all backgrounds feel welcome and able to contribute their best.

Our belief is that by attracting and retaining individuals from a broad range of backgrounds, we ensure the Society benefits from the best talent. Given that the Society is located predominantly in one of the most ethnically diverse regions in the UK, this level of diversity is also critical to our business model.

Over a quarter – 30% – of the Society's employee base is drawn from ethnic minority communities, which is particularly helpful for branches in areas with a mixed ethnic profile. By having staff with multi-lingual skills, we are better positioned to offer a service for customers in such localities that are culturally sensitive and relevant.

In terms of gender, the Society has again published the required report on the gender pay gap. Closing any gap in the published metrics remains a key focus for the Society, however good progress has been made at the senior leader level, where the volume of female employees as successors for many of the more senior positions is circa 50%. However as stated in the Directors Remuneration Report, whilst the Society continues to take steps to attract and develop female colleagues at senior levels, to reduce the pay gap significantly will also require attracting more men into entry level positions; in effect achieving a balance at both ends of the pay scale.

Our commitment to a greater gender balance at a leadership level can be witnessed through the commitments made via the Women in Finance Charter. Over a third of the Society's board – 38% – is female, which is above the target of 30% we set for ourselves for 2020. As for the Society's senior management figure, this is presently 35%, against a 30% target.

In total, out of 692 staff (including Non-Executive Directors), women make up 449 (65%).

Details of staff composition at the end the year is outlined below, compared to 2019:

		2020 Female	2020 Male	2019 Female	2019 Male
Directors	Number	**3**	**5**	3	6
	Percentage	**38%**	**62%**	33%	67%
Senior managers	Number	**28**	**53**	6	15
	Percentage	**35%**	**65%**	29%	71%
Other colleagues	Number	**418**	**185**	425	246
	Percentage	**69%**	**31%**	63%	37%

Senior managers include divisional directors and employees categorised as 'Senior Managers' and 'Senior Specialists', a wider definition than that used in previous years, which is more representative of our leadership.

The Society appreciates that a diverse employee base requires a fully inclusive culture and a broad understanding and acceptance of the value differences between employees brings. Promotion of such understanding was the thinking behind the creation of Connect in 2018.

Comprising staff from across the Society, and with a direct representative at executive level, Connect is guided by the conviction that everyone within the business should feel involved and valued, and their identity respected. Acknowledging festivals such as Vaisakhi, Eid, Hanukah, and Diwali is very much part of this approach. Likewise with communications and events celebrating differences, notably, International Women's Day, Black History Month, Disability Awareness Month, LGBT Pride, and International Men's Day.

The Society recognises that flexible working is an important offering for all employees, especially in supporting colleagues with childcare and other carer responsibilities. Our policy on flexible working is valued by colleagues, and indeed during the current pandemic crisis the ability for the majority of colleagues to work effectively away from the office environment has been clear to see.

At the same time, the Society is aware of the need to make itself more attractive and accessible to people with disabilities. We are therefore exploring ways to do so by reviewing our attraction and recruitment practices, as well as linking up with charities on possible work experience placements for disabled students. Our partnership with Queen Alexandra College in Birmingham, which caters for young people with visual impairments and learning disabilities, may present an ideal opportunity for this.

The dimension of disability

The Society's determination to give genuine meaning to our belief in diversity and inclusion, both as a matter of ethical principle and practical business sense, was further highlighted when, in April 2018, we signed up for the Disability Confident Scheme – a government initiative to encourage employers to recruit and retain disabled people and those with health conditions.

Initially achieving Level 1 in the scheme, the Society then advanced to Level 2 in January 2019. Now recognised as a Disability Confident Committed Employer, the Society is eager to ensure, for instance, that our recruitment process is inclusive, fair and accessible. It also means making the reasonable adjustments necessary as an organisation where disabled people, including current employees with disabilities or long-term health difficulties, can fulfil their potential and progress as individuals.

Through several steps we are currently exploring – engaging with agencies, including the charitable sector, who work closely with disabled people to see how we can improve our practices, for example, on disability awareness and offering relevant placements – we want our status as a Disability Confident Employer to be more than a statement of intent but one of ongoing achievement.

Environment

Climate change has been identified as one of the greatest challenges facing nations, governments, business and citizens over future decades. Climate change has implications for both human and natural systems and is leading to significant changes in resource use, production, and economic activity. In response, we are developing initiatives and implementing change to limit the Society's greenhouse gas (GHG) emissions by building upon the past improvements we have made.

Our new initiatives will be based upon the quantification, monitoring, reporting and verification of GHG emissions and removals, and waste elimination for all future reporting periods.

The health and wellbeing of our staff, visitors, and customers is of equal importance to us. We will be taking steps to ensure that those elements of our operations that affect the environment in which people use our facilities, such as indoor environment quality and local building emissions, are maintained to well within recommended limits.

During the year we have commenced the planned improvements to our transport use. We are building upon our use of public transport and car sharing by introducing fully electric vehicles. The first vehicles are now in use and proving to be practical and effective. We will continue to purchase the best type of vehicle for use at the point of replacement to meet our emissions targets and support our drive to become carbon neutral as soon as is practicable. Our IT systems are being continually improved and we employ best practice for reducing our energy use in this critical area whilst ensuring that we deliver the high-quality service and robust security that is expected in this sector.

Our current environmental policy requires the following aims and targets to be met by continuous improvement:

- **Carbon neutrality** – we will become carbon neutral for all operations under our direct control by 2035 and aspire to being carbon positive (removing more carbon than we use) by 2050. We will report on, and significantly reduce the carbon emissions of our supply chain by 2025.
- **Energy and water** – to efficiently operate and maintain our buildings such as to maintain healthy indoor environments, using less energy and water, reducing carbon emissions and promoting the use of renewable energy and resources.
- **Waste** – reduce our resource consumption, to re-use where possible and to recycle unwanted materials e.g. paper, furniture, carpets, equipment, food etc.
- **Travel and transport** – minimise emissions from business travel, commuting, and deliveries, and to promote more sustainable travel by staff and visitors.
- **Procurement** – to procure goods and services in a socially, environmentally and economically responsible manner. This can range from the ordering of Fairtrade products to the purchase of materials and consumables containing recycled and sustainably produced materials.
- **Health and wellbeing** – to contribute to the positive mental and physical health and wellbeing of staff and visitors.
- **Training, awareness, and communication** – to increase sustainability literacy amongst staff, contractors, suppliers, partners and visitors.

This section of the report summarises the energy usage, associated emissions, energy efficiency actions and energy performance for the Society, under the government policy Streamlined Energy & Carbon Reporting (SECR), as implemented by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Energy Use 2019-2020	kWh p.a.	CO_2 (tonnes) p.a.
Buildings electricity	2,321,740	593,463
Buildings natural gas	741,142	136,266
Transport	386,884	92,721
Totals	3,449,766	822,450

Measures ongoing and undertaken through 2019/20 include

- **LED Lighting:** LED fittings are currently used to replace existing lamps that fail as a matter of course.
- **Electric Vehicle Use:** We have introduced electric vehicles into our company car fleet along with the installation of two charging points. Feedback from this exercise will be used to determine a transport strategy that will include the wider consideration of vehicle usage across the Society.
- **Site Optimisation:** A review of M&E facilities/installations across the sites has been undertaken to enhance the effective and efficient operation of services.

Other non-financial information

The Society adheres to the highest standards with regards to anti-bribery and corruption. All colleagues are trained in recognising and understanding the associated risks and are required to complete annual mandatory training. Additionally, the Society has in place policies to comply with applicable laws, including the Bribery Act 2010 and the Criminal Finances Act 2017. The Society publishes a Modern Slavery and Human Trafficking Statement annually on its website and continually seeks to improve its vigilance in respect of modern slavery issues via its Supplier Selection and Management policy and related procedures. The Society has a zero tolerance approach to slavery and human trafficking in all its forms, both in its supply chain and its business operations.

On behalf of the Board

Ashraf Piranie
Group Finance & Operations Director
2 June 2020

Risk Management

Overview

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

The Board welcomes the principles 'for effective risk oversight' set out by the Risk Coalition, published in final form in December 2019. Although compliance is voluntary, the Society seeks to embed these principles across the business to further strengthen its risk culture and adopt good practice risk guidance, whilst recognising the presence of detailed regulation.

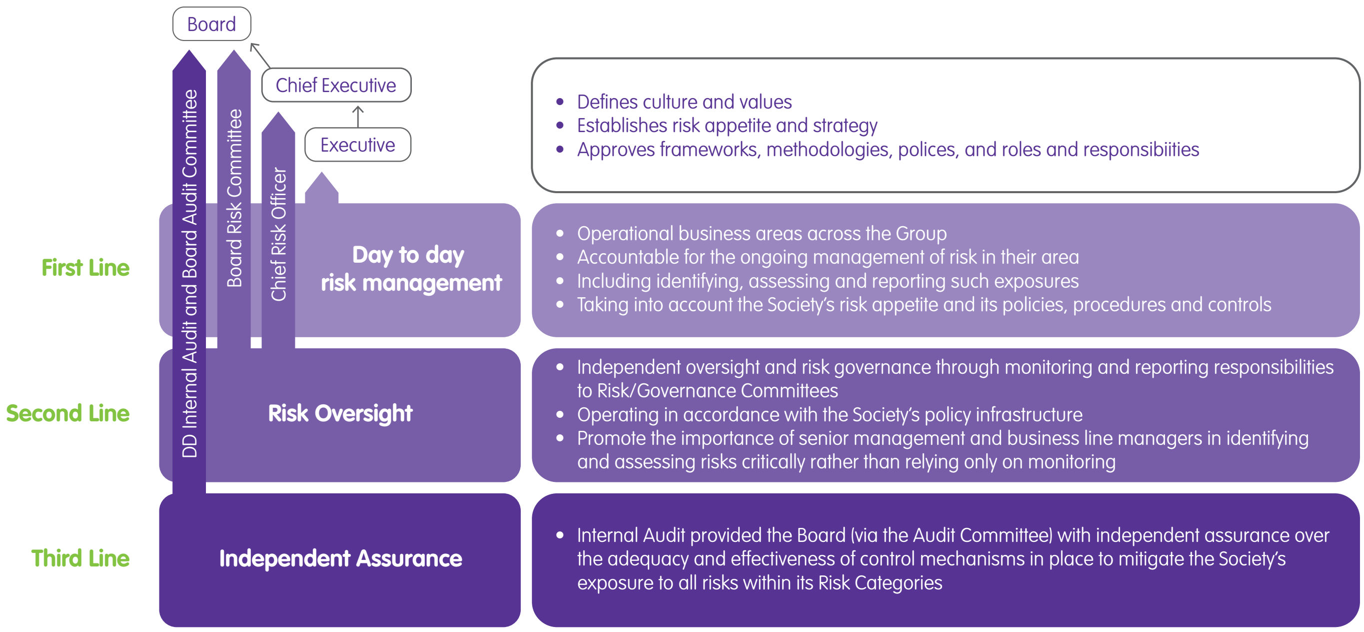
The Society operates entirely within the UK financial services market and only takes on risks, which it has the capability to understand and manage effectively.

Risk management framework

The Society's activities are governed by its constitution, principles and values. The Directors have also agreed a set of statements which describe the Board's risk appetite in terms of a number of principal risk categories to which the Society is inherently exposed as a building society: business, credit, capital, liquidity, market, basis, operational, retail conduct, pension liability, information and model risk (the Society's Risk Appetite Statements).

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

The final element of the framework is the formal structure for managing risk across the Group. This is based on the 'Three Lines of Defence' model which is illustrated below.



Governance structure

During the year, risk governance was provided by a structure consisting of nine key risk management committees/groups:

Risk Committee (RC) - Comprising of all of the Non-Executive Directors except the Chairman, this Committee is responsible for the oversight and management of the principal and key strategic risks identified by the Board.

Executive Risk Committee (ERC) - This Committee is chaired by the Chief Risk Officer (CRO) and is responsible for providing the Executive and the Risk Committee with an enterprise wide view of the risk profile of the Society, including current and potential risks. The ERC is also accountable for driving the detailed implementation of the Society's Risk Management Framework.

Assets & Liabilities Committee (ALCo) - This Committee is chaired by the Group Finance & Operations Director and is responsible for overseeing the assets and liabilities risk, including the assessment of exposure to Treasury counterparty credit, market, liquidity, pension liability, basis and interest rate risk.

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

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

Operational, Conduct and Information Risk Group (OCIRG) - This Group is chaired by the CRO and is responsible for the oversight of the management of operational and retail conduct risks arising from the Society's business activities. It also maintains oversight and governance of information risk across the Society and challenges the effectiveness of the controls in place to mitigate information risk (including cyber security). One of its purposes is to support and drive the information risk governance agenda and provide oversight that effective information governance best practice mechanisms are in place within the Society.

Capital Review Group (CRG) - This Group is chaired by the Group Finance & Operations Director and is responsible for reviewing the Group's capital position.

Audit Committee (AC) - Comprising four Non-Executive Directors, the Audit Committee provides the Board with assurance regarding the integrity of the financial statements and the adequacy and effectiveness of the Society's risk management frameworks.

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

Model Risk Committee (MRC) - This Committee is chaired by the CRO and is responsible for overseeing the Society's exposure to model risk across the business.

Risk categories

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

Business risk

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

Credit risk

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

Capital risk

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

Liquidity risk

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

Market risk

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

Basis risk

The risk of divergence in interest rates for different balance sheet elements and that it may not be possible to decrease/increase administered savings rates in line with decreases/increase in money market rates, resulting in a margin squeeze.

Operational risk

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.

Retail conduct risk

The risk that inappropriate behaviours by the Society result in adverse outcomes for retail customers.

Pension liability risk

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

Information risk

The risk that customer or Society information assets are managed or processed incorrectly or are not adequately protected. It includes inadequate data quality and failure to comply with data protection and data privacy requirements.

Model risk

The risk of adverse consequences resulting from decisions based on models that are inaccurate, sub-optimal, incorrectly implemented, or misused.

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

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

Climate change

The Society recognises that climate change represents a significant threat to the financial stability of the economic system. While the financial risks from climate change may crystallise in full over longer time horizons, they are also becoming apparent now. Financial risks from climate change can arise through two primary channels: physical and transition, which can manifest, for example, through increased credit risk.

Physical risk can manifest through increasing frequency, severity or volatility of extreme weather events impacting mortgaged properties. Transition risks can arise from the process of adjustment towards a low-carbon economy. The Society is working to quantify its potential exposure to both of these climate change risks.

In response to the PRA Supervisory Statement on the Financial Risk from Climate Change, the Board designated the CRO as the senior manager responsible for managing these risks.

Furthermore, the Society has, for the first time, made disclosures through the UK Streamlined Energy and Carbon Reporting (SECR) framework. This includes energy use from electricity, gas and transport fuel, as well as associated greenhouse gas emissions. The Society has also made a wider disclosure, encompassing wider aspects of sustainability.

Business conditions and the economic environment

The 2019 General Election and subsequent exit from the European Union (EU) reduced some lingering uncertainty for the UK. However, these have been replaced by the COVID-19 pandemic, subsequent lockdown, and social distancing measures as significant threats to the macroeconomic environment. Against this backdrop, the Bank of England estimates GDP will fall sharply in 2020, with correspondingly positive growth expected in 2021.

In response to falling asset prices, government bond yields and a sharply deteriorated outlook for UK and global GDP, the Bank of England announced emergency measures to prevent longer-lasting economic harm. Bank Rate was reduced by 65 basis points to 0.10%, and a new Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) was announced to provide participants with a cost-effective source of funding to support additional lending to the real economy. Furthermore, the government announced that borrowers that were impacted by COVID-19 would be eligible for a mortgage payment holiday for both owner occupiers and BTL customers. The Society confirmed that borrowers who advised they were experiencing financial difficulty as a result of COVID-19 would be supported with forbearance. These payment holidays have subsequently been extended to other forms of credit, i.e. personal loans, credit cards, car finance etc. and the unprecedented government support has extended to furloughed employees and some self-employed customers being paid up to a maximum of £2,500 per month.

The COVID-19 induced lockdown has stalled the housing market, with banks and building societies retreating to lower LTV lending, if lending at all. Prior to this the cost of retail mortgages generally remained low, with the spread between high and low LTV products at its lowest for over 10 years, driven by increasing competition in the market. The low cost of borrowing had contributed to improved customer affordability, with increasing volumes of first-time buyers being able to get on the housing ladder. Low interest rates also supported a benign credit risk environment across the industry, with arrears and possessions at record lows, although these are now expected to rise as the economic effects of COVID-19 and the lockdown start to bite.

House price growth stabilised in 2019/20 Q4 but, due to very few housing transactions now being completed, prices are very difficult to estimate and the ONS has temporarily suspended publication of its house price index. Headwinds remain on the downside however with the potential spread of COVID-19 having the ability to cause significant disruption to the economy in its first wave with a reasonable probability that a second outbreak is likely ahead of a vaccine being developed. Anaemic consumer confidence and behavioural change could result in a slower than forecast economic recovery during 2021, which will impact on the volume of property transactions and asset prices.

The West Brom is exclusively focused in the UK and, therefore, the general UK macroeconomic environment is key to its success. The Society considers macroeconomic risks on a regular basis, under central, downside, stressed and upside conditions to understand and manage the impact on its business model.

In addition to the significant risks posed by the COVID-19 pandemic and although the UK has left the EU, there still remains significant uncertainty around our future trading relationship which has the potential to further impact on consumer and business confidence. The external factors that impact the Society include:

- Interest rates (Bank Rate, LIBOR (including discontinuation) or SONIA);
- Inflation;
- Unemployment; and
- The residential housing and commercial property markets.

The Society is not exposed to any direct trade with the EEA and does not rely on regulatory pass-porting into the EEA and is not directly dependent on EEA based financial market infrastructure.

Day-to-day management of key risks

Primary responsibility for risk management, including the design and operation of effective controls, rests with the management of each business function - the 'First Line of Defence'. Support and challenge is provided through specialist risk functions - Credit Risk, Operational and Conduct Risk and Assets & Liabilities Management Oversight – the 'Second Line of Defence'. These functions develop and review policies, monitor and support compliance with those policies, and support the business functions in their management of risk.

Governance and oversight is provided through a number of management and executive committees as detailed on page 33.

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 Society, this normally means the risk that a borrower will not repay their mortgage loan, or that a financial institution will not repay funds invested by the Society in that institution.

The Society's Board establish the credit risk appetite and supporting lending policy for the year. All new lending is monitored against risk appetite limits, with any breaches reported through the Society's risk committees so that the need for corrective action may be considered.

The Society's exposure to residential and commercial credit risk is managed by a specialist Credit Risk team, which is responsible for setting the Credit Risk Management Framework and associated limits. It also provides regular reports to the Risk Committee, which I chair and includes all other Non-Executive Directors, except the Chairman, as members.

In response to the COVID-19 pandemic, the Society is keeping its Credit Risk policies and procedures under constant review. New lending policies and procedures have been amended to take account of economic uncertainty, market movements, and the impact of government support.

Similarly, the Society's approach to Collections and Recoveries has been reviewed in light of the introduction of mortgage payment holidays and the moratorium on possessions, and will continue to be updated in line with any ongoing government and regulatory guidance.

The Society's internal credit risk reporting has also been enhanced to ensure that the risk committees have additional information in relation to payment holiday requests, and that tracking is in place to monitor their performance once the payment holiday ends.

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

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

Market risk

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

ALCo reviews the Treasury & Financial Risk Management Policy, recommending changes to the Board as appropriate, and ensures that regular reports on all aspects of market risk are assessed and reported to the Board. The key market risk is interest rate risk, which arises as a result of differences in the timing of interest rate re-pricing of assets and liabilities. To mitigate this, Treasury uses natural balance sheet hedging (e.g. matching 2 year fixed rate mortgages with 2 year fixed rate saving bonds) and derivative instruments. The Building Societies Act 1986 restricts the use of derivatives strictly to hedge against the impact of fluctuating external factors, such as interest rates.

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

In line with regulatory requirements and best practice, the impact on net interest income (NII) of a parallel shift in interest rates in both directions, is considered. In addition, the impact of alternative non-parallel scenarios upon NII and market value is also considered. Both are reported monthly to ALCo. The potential impact of bank rate reducing further to negative rates continues to be monitored and reported.

Interest rate sensitivity also arises from the potential for different interest rates to move in different ways, e.g. Bank Rate mortgages are partially funded by administered rate liabilities. The impact of these mismatches (basis risk) is monitored by Treasury and reported to ALCo. The regulatory authorities have continued to encourage firms to transition away from using LIBOR as a benchmark in all their operations before the end of 2021; SONIA has been chosen as the preferred benchmark rate in the UK. The Society has made good progress in transitioning its new exposures to this benchmark ahead of the deadline. The Society's main exposure to equities is through the defined benefit pension scheme. There is no direct exposure to foreign exchange rates.

The Society has invested in property through its subsidiary West Bromwich Homes Limited and offers residential property for rent. This exposes the Society to movements in house prices.

Liquidity risk

The Society's primary purpose is to make loans secured by way of mortgages on residential property. It funds these loans substantially from short term deposits provided by its saving members. The contractual maturity of the mortgages is typically up to 30 years although loans are often repaid early due to borrowers moving house or remortgaging.

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

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

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

The supervisory review also informs the PRA's view of the amount of 'buffer' or highest quality liquid assets that the Society should hold to meet the three standard regulatory stress scenarios and the maximum allowable gap between maturing wholesale assets and wholesale liabilities (wholesale refinancing gap). Treasury maintains liquid resources at the greater of the Liquidity Coverage Ratio (LCR) requirement or the internal assessment of liquidity adequacy.

The Net Stable Funding Ratio (NSFR) is a longer-term stable funding metric, which measures the sustainability of the Society's long-term funding. The Society's NSFR is in excess of 100%, and the Society holds sufficient stable funding to meet this requirement.

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

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

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

Capital risk
The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) covering all risks. This is used to assess the Society's capital adequacy and determine the levels of capital required going forward to support the current and future risks in the business. This analysis is collated through the ICAAP that is approved by the Board. The ICAAP incorporates expected future capital requirements from changes in business volumes, mix of assets and activities within the context of current and anticipated future risks, and multiple stressed scenarios. The ICAAP is reviewed by the PRA to set the Society's Total Capital Requirement.

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

The detailed breakdown of the Society's capital position can be found on page 24.

Operational risk
Each business function has a clearly articulated responsibility for identifying, monitoring and controlling its operational risks. The business function receives support and guidance from the Operational and Conduct Risk team, which has regular dialogue with function managers and collates management information for review by executive management, the Operational, Conduct and Information Risk Group and the Risk Committee.

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

A key focus during the year has been operational resilience, which is defined by the FCA and the Prudential Risk Authority (PRA) as 'the ability of firms to prevent, adapt, respond to, recover and learn from operational disruptions'. A centralised area has been established to co-ordinate efforts across the business in the development and delivery of the Society's Operational Resilience Plan and Business Continuity and Disaster Recovery Risk Management Framework, all important components against which to manage operational resilience.

The COVID-19 pandemic has resulted in a number of changes to working practices, with a significant number of colleagues working from home, impacting the operational risk profile. The risk and control environment associated with this is being monitored by Second and Third Line functions.

Retail conduct risk
Conduct risk is overseen by the FCA who continue to increase the regulatory focus on it. This continues to go beyond the previous focus on compliance with rules, on process and on treating customers fairly, to now embrace a holistic approach of how a firm organises itself and does business in order to ensure good customer outcomes.

The management of conduct risk is a key component in the successful delivery of the Society's strategy and objectives, and protection of its members and customers.

Information risk
Understanding and managing information risk is imperative to the successful achievement of the Society's business objectives.

Effective policies, procedures and processes complemented by technological defences and detection tools, provide for successful information risk management.

To this end, the Society has determined a risk management strategy based on defined principles and managed against a clearly articulated and Board approved, Risk Appetite Statement.

The General Data Protection Regulation (GDPR) came into force in May 2018, extending the rights of consumers in respect of their personal data and the Society has established robust processes to ensure compliance.

Model risk
Increasingly, across the sector, models are developed to assess, control and monitor risk more effectively, consistently and accurately. As businesses place more reliance upon the outputs of such models, particularly in reporting and decision-making processes, it becomes increasingly important that an effective framework is in place to manage model risk. The Society continues to develop its modelling capabilities and has integrated models into key business activities such as loan decisioning, loss assessment, strategic planning, product pricing and the assessment of capital requirements. The Society continues to progress its project to migrate to Internal Ratings Based credit risk models and manages its models in accordance with all applicable regulation. A process of governance has been established, applicable throughout the model life cycle, from initiation, through development, approval, implementation to ongoing monitoring and validation.

Principal risks and uncertainties
Set out in the following table are the principal external threats which have been identified by the Risk Committee, along with the Society's response and mitigants in place.

Risk category	Principal external threats	Society response and mitigants
Business risk	Adverse changes to the operating environment arising from the general uncertainty in the UK economy, due to the ongoing disruption caused by COVID-19, and as a result of implementing Brexit and UK-EU trade negotiations, leading to: • A reduction in interest rates from the current historical low, to zero, or even negative territory; • Reduced activity in the housing market and possible adverse impact from both lower lending and a potential fall in house prices; • Increased competition in the mortgage market and rising cost of retail funding; • Flat or declining economic growth; and • Increasing regulatory costs.	Business plans continue to model the impact of a range of scenarios and stress tests, which have been expanded to include potential Brexit outcomes and anticipated impact of the more recent COVID-19 pandemic. This is reflected within the IFRS 9, ICAAP and ILAAP assessments. These outcomes have Board visibility and are reviewed by a number of risk management committees. The Society is based in the UK and has no EU operations limiting its exposure to Brexit related operational risks.
Credit risk	Higher unemployment as a result of self-employed/ wider business failures and/ or an increase in Bank Rate (leading to increased arrears and losses).	The Society's IFRS 9 provisioning and stress testing models assume a range of unemployment levels and varying interest rate scenarios, including a stressed outcome. Should an increase in arrears accounts occur, the Society would expand its credit services resource.
	Reduction in property prices (leading to a higher incidence of voluntary possessions and elevated shortfalls when properties sold).	The Society is committed to work with its borrowers to avoid possession wherever possible. In the event that possessions were to increase, the Society's regular reviews of its IFRS 9 provisions would reflect this increase.
	Low or flat economic growth (leading to further commercial property tenant failures).	The Society has a well-resourced and highly experienced team dealing with commercial property mortgages and, as has been the case throughout the year, works with borrowers and agents to lessen the impact.
Capital risk	Rules for calculating capital (amount required and/or amount held) are changed.	Maintain regular dialogue with the regulator and ensure full understanding of and compliance with the relevant rules.
Liquidity risk	Intensification of competition for retail and wholesale funding.	The Society has demonstrated the ability to attract new retail deposits this year, despite intense competition. The Society also has access to a diverse range of other funding sources, including wholesale options and funding provided through the Bank of England's Sterling Monetary Framework.
Basis risk	Reduction in returns from residential tracker mortgage assets whose rate is linked to Bank Rate with no floor.	The Society does not originate any new residential tracker mortgages and is managing down its Bank Rate Tracker book, replacing this with administered rate, or SONIA-linked assets.
Market risk	The risk of a reduction in the Society's net interest margin as a result of rising competition amongst deposit takers.	The Society operates within Board approved limits and monitors the exposure to increases in funding rates through ALCo.
	Falling HPI, leading to a reduction in the book value of West Bromwich Homes Limited properties.	No new homes have been added, containing the exposure.

Risk category	Principal external threats	Society response and mitigants
Operational risk	Insurance arrangements do not sufficiently cover an event (requiring the Society to pick up the cost).	The annual review of insurance arrangements is based on advice from brokers and an annual benchmarking exercise.
	A significant business continuity event.	Detailed business plans are in place, which are regularly tested.
	Investment in core technology introduces execution risk with the benefits being delayed or not delivered.	The Society has a robust change management framework in place with regular updates provided to the Board.
	Single points of failure are identified, potentially impacting on critical services (mortgages and savings).	The Society is strengthening its operational resilience framework to facilitate greater alignment across the resilience disciplines to provide critical services to meet members' requirements and expectations. A centralised area has been established to ensure consistency across the business in this regard and co-ordinate cross-functional operational resiliency activities.
Information risk	One or more of the Society's IT systems are attacked for the purposes of financial gain, theft of data or to cause the Society disruption or negative exposure and threaten the security of members' information, and the availability of the services offered to them. Cyberattacks remain a significant risk for financial institutions.	The Society recognises the need to maintain and develop its defences and responses in this area in order to protect the Society and maintain the trust of customers and the confidence of regulators. The Risk Committee are kept updated as to the maturity of the Society's cyber defences and controls; projects focused on the mitigation of risks associated with phishing and data loss are being progressed to further enhance the Society's defences.
Pension liability risk	Increased longevity, poor or volatile returns on scheme assets such as equities, gilts or bonds linked to long term interest rates (requiring the Society to contribute more to the scheme).	The defined benefit scheme is closed to new members and existing members are no longer accruing service benefits. The Scheme is subject to an actuarial review every three years to calculate the current position (surplus/deficit) and was finalised during the year. The Society has agreed a recovery plan with the Trustee Board which will see the current deficit closed within an appropriate timeframe set out by the pension regulator. The Scheme's investment advisors provide support on the strategies for the Scheme to the Trustee Board which aims to fulfil future funding requirements of the Scheme, as well as hedging interest rate and inflation risks to protect the pension liabilities against market volatility.
Retail conduct risk	Actions of third party suppliers leading to adverse customer outcomes.	A robust supplier framework is in place to oversee the activities of key suppliers.
Model risk	Regulatory requirements are amended by PRA/EBA with limited time/resource available for compliance.	The Society maintains close monitoring of regulatory publications and is involved with industry user groups to ensure appropriate visibility of emerging regulation on the horizon.

The Society has a Recovery Plan in place that captures, inter alia, management actions for a range of adverse scenarios that may impact any of the above risks either individually or collectively.

Mark Preston
Chairman of Risk Committee
2 June 2020

Board of Directors

Left to right: **Mark Nicholls, Victoria Mitchell, Ashraf Piranie** and **Lynne Shamwana.**

Julie Hopes MBA, ACIB
Non-Executive Director Appointed April 2016
Julie has many years of experience in retail financial services, with a particular focus on general insurance. An Associate of the Chartered Institute of Bankers, she has Non-Executive Director roles with Saga plc and Police Mutual Assurance Society where she is the Chair along with Chair of Saga Services Ltd. Julie chairs the Remuneration Committee and is a member of the Nominations and Risk Committees.

Victoria Mitchell LLB (Hons)
Non-Executive Director Appointed April 2018
Victoria joined the Board on 1 April 2018 and is a legally trained businesswoman who brings to the West Brom a broad experience across operations and risk within the financial services sector. Prior to taking on the Non-Executive Director role at the West Brom, Victoria held the position of Chief Operating Officer at Capital One Europe plc. Victoria is a Non-Executive Director at Lookers PLC, Lookers Motor Group Ltd and N Brown Group plc where she is the Chair of the Financial Services Board. Victoria is a member of the Audit and Risk Committees.

Mark Nicholls MA (Cantab), MBA
Chairman Appointed January 2010
Mark has considerable knowledge of financial services having been a Director of SG Warburg Group Plc and Managing Director of the private equity group of the Royal Bank of Scotland. Mark has held Non-Executive Directorships at Portman and Nationwide building societies and is currently Chairman of Rathbone Brothers Plc. Mark also has a longstanding commitment to the charitable and public sector. Mark chairs the Nominations Committee and is a member of the Remuneration Committee.

Ashraf Piranie FCCA, MBA
Group Finance & Operations Director Appointed March 2017
Ashraf has worked in financial services for most of his working life, including the positions of Finance Director and Joint Managing Director at the Islamic Bank of Britain and Director of Finance at Alliance & Leicester Plc. Prior to joining the West Brom, he was Deputy Chief Executive & Finance Director at Nottingham Building Society. Ashraf, until recently, was also Deputy Chair of the PRA Practitioner Panel. Ashraf chairs the Society's Assets & Liabilities Committee.

Left to right: **James Turner, Julie Hopes, Mark Preston** and **Jonathan Westhoff.**

Mark Preston BA (Hons), ACIB
Non-Executive Director Appointed May 2011
Mark has been involved in financial markets for over 30 years, most recently as Chief Executive at Exotix Partners. He is a member of the governing council for the University of Kent. Mark chairs the Risk Committee and is a member of the Audit, Nominations and Remuneration Committees.

Lynne Shamwana BA FCA
Non-Executive Director Appointed February 2019
Lynne is Chief Financial Officer at Virgin Care. Lynne was previously Global Finance Director of Christie's, the international art auction house. She has held a variety of senior finance and management roles at Centrica plc, British Gas, Goldfish Bank plc and Alliance & Leicester plc. A fellow of the Institute of Chartered Accountants in England and Wales, Lynne is a member of the Audit, Remuneration and Risk Committees.

James Turner FCA, FCSI, BA (Hons)
Non-Executive Director Appointed April 2017
James is the Group Chief Risk and Compliance Officer and an Executive Director on the Prudential Board. Before joining the Board, James was the Director of Group Finance. Prior to Prudential, James was the Deputy Head of Compliance for Barclays. He also held a number of senior internal audit roles across the Barclays Group. James chairs the Audit Committee and is a member of the Risk Committee. James will be stepping down from the Board at the Board meeting immediately following the Annual General Meeting.

Jonathan Westhoff BA (Hons) Financial Services, FCMA, CGMA, ACIB
Chief Executive Appointed May 2009
Formerly the Society's Group Finance Director and Deputy Chief Executive, Jonathan was appointed as Chief Executive in May 2011. After 17 years with Barclays Bank, he moved into the mutual sector in 2000, serving as Finance Director at Portman and Newcastle building societies. He chairs the Executive Committee, the Member and Employee Councils, and is a member of the Society's Assets & Liabilities Committee. Jonathan is a past Chairman of the Building Societies Association.

Directors' Report

The Directors are pleased to present their Annual Report, together with the audited Accounts, for the financial year ended 31 March 2020.

Business objectives

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

Business review

The Group's business and future plans are referred to in the Chairman's Statement on page 2, the Chief Executive's Review on pages 4 to 8 and the Strategic Report on pages 9 to 32.

Key performance indicators

The Board measures performance against its strategic aims by reference to a number of key performance indicators which are described in the Strategic Report on pages 9 to 32.

Profit and capital

Profit before tax (on continuing operations) was £1.5m (2018/19 (restated): £9.2m).

The capital position is set out in the Strategic Report on pages 24 to 25 and the Annual Business Statement on page 151. Detailed Pillar 3 capital disclosures for the current year will be available on the Society's website.

Country-by-country reporting

Information in respect of the Capital Requirements (Country-by-Country Reporting) Regulations 2013, which place certain reporting obligations on financial institutions that are within the scope of the Capital Requirements Directive (CRD IV), is given in note 40 to the accounts.

Risk management

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

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

The principal risks inherent to our business and details of how these risks are managed are set out in the Risk Management Report on pages 33 to 39.

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

Financial risk management objectives and policies

The Board's objective is to minimise the impact of financial risk upon the Society's performance. Financial risks faced by the Society include interest rate, credit and liquidity risks. The Board manages these risks through a risk management framework, Board policies and its Treasury and Credit Risk functions. Governance and oversight is provided through the Risk and Assets & Liabilities Committees. Details of the Society's financial instruments, hedging activity and risk mitigation can be found in note 12 and notes 32 to 35 to the Accounts.

Mortgage arrears

At 31 March 2020 there were 21 residential and 5 commercial mortgage accounts (2018/19: 10 residential and 5 commercial mortgage accounts) where payments were 12 months or more in arrears based on current monthly repayments.

The total amount outstanding on these accounts was £81.4m (2018/19: £77.2m), of which £80.2m (2018/19: £76.2m) related to commercial mortgage accounts. The total amount outstanding represented 1.72% (2018/19: 1.61%) of mortgage balances. The amount of arrears was £16.0m (2018/19: £16.3m), relating primarily to commercial mortgage accounts. Appropriate provisions were made for potential losses on mortgages in accordance with the provisioning policy set out in note 1 to the Accounts.

Directors

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

Julie Hopes
Victoria Mitchell
Mark Nicholls (Chairman)
Ashraf Piranie*
Mark Preston
Martin Ritchley (stepped down 25 July 2019)
Lynne Shamwana
James Turner
Jonathan Westhoff*

* Executive Directors.

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

Supplier payment policy

The Society's policy is to agree the terms of payment before trading with the supplier and to pay in accordance with its contractual and other legal obligations. At 31 March 2020, the creditor days figure was 31 days (2018/19: 30 days). This conforms with the aim of paying creditors promptly.

Charitable donations

During the year, the Society donated £850 (2018/19: £2,625) to charitable organisations. The Society also raised significant sums through its community programme, affinity accounts and voluntary staff initiatives. These are outlined in the Corporate Social Responsibility section of the Strategic Report.

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

Employees

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

The Society was one of the first signatories to the Women in Finance initiative, which is a government sponsored initiative to increase the numbers of female staff in financial services. The Society produced a diversity strategy during 2017 to increase its representation of people from all backgrounds.

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

Health and safety

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

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

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

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

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

Towards the end of the financial year the UK was hit with the COVID-19 pandemic and it is important to outline the impact this had on the Society for both our members and our staff colleagues, including the steps we have taken to safeguard both our members and our staff. Throughout the crisis we have always adopted safety measures in line with the government guidance at the time, consulting with union representatives along the way.

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

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

The Building Societies Act 1986 (the Act) requires the Directors to prepare Group and Society Annual Accounts for each financial year. Under that law they are required to prepare the Group Annual Accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the Society Annual Accounts on the same basis.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

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

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

Directors' statement pursuant to the Disclosure and Transparency Rules

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

- the financial statements, prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group; and
- the management reports in pages 9 to 39 include a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Group:

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

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Society and to prevent and detect fraud and other irregularities.

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

Going concern and business viability

The Directors' responsibilities in respect of going concern are set out below. In addition, the Directors have elected, with regard to the UK Corporate Governance Code, to publish a business viability statement which states whether there is a reasonable expectation the Society and the Group will be able to continue in operation and meet their liabilities as they fall due. The period assessed under the business viability statement is required to be significantly longer than the minimum period of 12 months over which going concern is assessed.

Directors' responsibilities in respect of going concern

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review on pages 4 to 8 and the Strategic Report on pages 9 to 32. The financial position of the Group, its capital structure and risk management and control processes for managing exposure to credit, market, liquidity and operational risk are described in the Strategic Report on pages 9 to 32 and the Risk Management Report on pages 33 to 39.

In addition, note 12 and notes 32 to 35 to the Accounts include further information on the Group's objectives, policies and processes for managing its exposure to liquidity, credit and interest rate risk, details of its financial instruments and hedging activities.

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

Furthermore, the Group's capital is in excess of the PRA minimum requirement under each of the scenarios considered. Scenarios considered continue to include a range of potential Brexit outcomes as well as scenarios considering the impact of Coronavirus on future economic activity and incorporate both financial and operational stresses.

After making enquiries the Directors are satisfied that the Group has adequate resources to continue in business for the next 12 months and that, therefore, it is appropriate to adopt the going concern basis in preparing the Annual Accounts.

Business viability statement

The Directors have assessed the viability of the Group over a longer period than the 12 months required by the 'going concern' provision noted above.

The Directors' assessment is based on a robust review of the Group's principal risks, the Medium Term Plan (MTP) and the risk management framework including risk appetite and risk culture described within the Risk Management Report. This assessment is further supported by the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), reverse stress testing, Recovery Plan and Resolution Pack.

The assessment covers a period of three years as this is within the period covered by the Group's MTP, ICAAP, ILAAP and regulatory and internal stress testing. The time period chosen reflects the consideration that the level of uncertainty relating to the assessment increases the longer the period chosen. The pace of change of the economic, market and regulatory environments in which the Group operates may undermine the reliability of longer forecasts.

The MTP projects the Society's ongoing financial performance, capital and funding positions as satisfactory to the end of the three year plan period even in a range of adverse scenarios. Inherent uncertainty with regard to a number of factors, including geopolitical, economic and regulatory, inevitably increases over the planning period.

Scenarios tested showed that the Society would be able to maintain viability over the three year period under assessment, after taking account of the actions available to management including where appropriate actions undertaken by government to support the economy to mitigate the impacts on capital and liquidity in such scenarios.

Through the ICAAP the Society models the impact of the Bank of England's Annual Cyclical scenario on the Society's Capital position, throughout which a surplus over Total Capital Requirements is maintained. The impact of the Annual Cyclical scenario is more severe than that anticipated in the current COVID-19 pandemic.

Subject to the uncertainty in the outer years noted above and based upon the assessment set out above, the Directors therefore have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2023.

Auditor

KPMG, as KPMG Audit Plc, and since 29 July 2014 as KPMG LLP, has been the Society's auditor since 1993. KPMG was due to rotate off the audit following the year ended 31 March 2021, as required by EU audit legislation. The Committee, in planning for an effective transition, considered the timing of audit firm rotation and agreed to commence a tender process during 2019. As a result of that process, PwC have been appointed as our new external auditor (subject to approval at the Society AGM) for the financial year commencing 1 April 2020.

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

By order of the Board

Mark Nicholls
Chairman
2 June 2020

Directors' Report on Corporate Governance

The Board is committed to high standards of corporate governance and believes they are central to the Society's culture and values. The widely accepted articulation of good practice is the UK Corporate Governance Code (the Code).

The first version of the Code was published in 1992 by the Cadbury Committee. It defined corporate governance as ***"the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies…."***. This remains true today, but the environment in which companies, their shareholders and wider stakeholders operate continues to develop rapidly.

Over the years the Code has been revised and expanded to take account of the increasing demands on the UK's corporate governance framework. At the heart of this Code is an updated set of Principles that emphasise the value of good corporate governance to long-term sustainable success. The Code does not set out a rigid set of rules; instead it offers flexibility through the application of Principles and through 'comply or explain' Provisions and supporting guidance.

The Society is not required to comply with the Code, as it applies to publicly listed companies, but where it is considered relevant, the Society does have regard to its Principles. This Report details the Society's approach to corporate governance and, where different to relevant Code Principles, explains why that is the case.

The 2018 Code's Main Principles	What the Society does to meet the Principles
Board Leadership and Company Purpose A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	The principal functions of the Society's Board include: • Providing entrepreneurial leadership; • Setting the Society's strategic aims and risk appetite; • Implementing and maintaining a framework of prudent and effective controls, which enables risk to be assessed and managed; • Ensuring the necessary financial and human resources are in place for the Society to meet its objectives; and • Reviewing management performance. The Board meets as often as is necessary to fulfil its responsibilities. During the last financial year the Board met on 10 occasions. Details of Director attendance at Board and Committee meetings can be found in the table at the end of this Report. The minutes of Board and Committee meetings record all material discussion and challenge, and are circulated to all Directors. The Chair of each Committee reports to the subsequent Board meeting the key matters discussed. A schedule of matters reserved to the Board is maintained and kept under regular review. The Board is supported by a number of Committees each with Board approved terms of reference. Details of the membership of those Committees and their key activities are reported elsewhere in this Report and Accounts. As a mutual, the Society does not have shareholders but is owned by its members; the Society seeks feedback from members in a number of ways, including: • Members' ViewPoint events held around the branch network; • Assessing enquiries from the Society's contact centre and website; • Analysing the quantity and nature of customer complaints; • Customer research on specific topics; • Customer satisfaction surveys and Mystery Shopper programme; and Customer Panel to canvass views on products and services and give feedback on how the Society can improve the way it operates. • Member Council. A consultative group comprising of West Brom members whose purpose is to articulate their views as a member of the Society back to the Society's Board and Senior Leadership Team on specific Board and Society matters. An Employee Council has also been formed; a consultative group comprising of West Brom employees whose purpose is to articulate views of the employees back to the Society's Board and Senior Leadership Team. Every member of staff has direct access to the Chief Executive by either email, phone or face to face. In addition, the Society has an 'Open Door' Policy which provides staff who may have serious concerns about any aspect of the Society's work, the ability to come forward and voice those concerns rather than overlooking a problem. This process provides the opportunity for staff to leave an anonymous message on a dedicated phone line. This policy has taken account of the Public Interest Disclosure Act 1998. During the year, the Committee received a report summarising the two reports made under the 'Open Door' Policy. Both reports were fully investigated and neither report was regarding possible improprieties of financial reporting or other issues covered by the Public Interest Disclosure Act 1998.

The 2018 Code's Main Principles	What the Society does to meet the Principles
Division of Responsibilities The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	The role of the Chairman includes establishing and developing an effective Board to provide support and constructive challenge to the management team. The main responsibilities of the Chairman are: • Establish and develop an effective Board, including succession planning, recruitment and appraisal of Non-Executive Directors (NEDs); • Lead the Board as a team; • Ensure that the Board has agreed clear values and guiding principles; • Plan and manage the Board's business, including ensuring that appropriate committees are established with the right objectives and membership and that the Board has the right agenda and information; • Ensure that the Board has established key priorities; • Maintain and develop a productive and open relationship with the Chief Executive, agree the Chief Executive's objectives and carry out regular appraisals. The Chairman is responsible for leading the appointment process for the Chief Executive; • Ensure there are appropriate arrangements for the evaluation and remuneration of senior executives; • Act as an accountability focus for the Society, including chairing the Annual General Meeting; • Represent the Society with Regulators and ensure that there is an open and trustworthy relationship; and • Ensure that the Board and its Committees periodically evaluate their own performance. The Board has satisfied itself that, both at the time of his appointment and currently, the Chairman is independent in character and judgement and meets the independence criteria set out in the Code. The Chief Executive has overall responsibility for managing the Society and implementing Board agreed strategy. Board and Committee composition is kept under regular review by the Chairman and the Nominations Committee to ensure that it is of appropriate size, mix of Executive and Non-Executive Directors and has the right skills and experience to oversee the Society's business activities. The positions of Chairman and Chief Executive are held by different people. The letter of appointment for Notified NEDs sets out that at least 30 days per annum is the expected time commitment and explains what is required if there is any material change to their commitments. The time commitment for the Chairman and Chairs of Board Committees is expected to be much greater. Board papers, including a management information pack, are issued to Directors prior to Board meetings. Board agendas are agreed in advance of each meeting and focus on strategic matters, as well as ensuring that Directors are kept informed of key business activities and regulatory developments. Draft minutes of the previous Board meeting are included in the papers for the following meeting, for approval. Approved minutes of all Board Committee meetings are also circulated to all Board Members. Where appropriate, papers are presented by the relevant member of the management team. The Board and its Committees are served by the Group Secretary who advises on governance matters and procedures. Directors have access to independent professional advice should that be required.
Composition, Succession and Evaluation Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	The Nominations Committee is responsible for the recruitment of all Board members as well as members of the senior leadership team. The Nominations Committee regularly reviews Board succession plans and uses a Skills Matrix as one of the tools to identify future role needs. The Society usually engages a professional recruitment firm to support the recruitment process for all Board appointments. Miles Advisory was the firm the Society engaged during 2019/20 to support the recruitment of a new NED. The Society has a range of induction activities and material for NED appointments which is tailored to their individual experience. These include site visits, meetings with senior management and reports/information concerning the Group's operations. Internally organised events on topics of particular relevance to the Society are used to aid development. NEDs are also encouraged to attend appropriate externally organised events. A development log records relevant development activities undertaken by individual Directors. As a principle, the Society requires that Board members serve a maximum of nine years except where this may have a detrimental impact on the smooth running of the Board. In May 2020 Mr Preston will have served nine years on the Society's Board. To ensure a smooth transition, Mr Preston (Risk Committee Chair) has agreed to remain on the Board until the AGM in 2021 to enable a smooth handover to his successor. Following this, the search for a successor to Mr Nicholls (Chair of the Board) will begin. Again, this is to ensure a smooth transition. The Society adopts the approach of an externally led evaluation every three years supplemented by annual internal evaluations in the intervening period. The next external evaluation will be undertaken during the financial year 2020/21. The most recent formal evaluation of Board effectiveness was undertaken in the latter part of the 2019/20 financial year. This evaluation was conducted internally, led by the Chairman and supported by the Group Secretary. The process involved all Board members responding to a questionnaire issued by the Group Secretary. The process culminated in feedback to the Board. The annual evaluation of the Chairman was led by the Deputy Chairman and took the form of a meeting to review the effectiveness of the Chairman and Board and Committee provisions. The conclusions were shared with the Chairman.

The 2018 Code's Main Principles	What the Society does to meet the Principles
Audit, Risk and Internal Control The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements. The board should present a fair, balanced and understandable assessment of the company's position and prospects. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	The Society's Board is responsible for the development of strategies relating to risk management and internal control. Operational responsibility rests with the Executive Directors and senior managers. The risk management systems and internal controls are designed to allow the Society to achieve its objectives in a controlled manner and remain within defined risk appetite statements. These systems and controls are designed to manage rather than eliminate risk. The Board reviews the effectiveness of the risk management systems and internal controls in a number of ways, including: • Board review and approval of Risk Appetite Statements at least annually, with monthly reporting relating to those statements; • A formal committee structure, including an Audit Committee (see below for more detail) and a Risk Committee. The minutes of the meetings of these Committees are reviewed by the full Board, the relevant Committee Chairman highlighting any key issues; • Regular reports and presentations to the Board by the Executive Directors; and • Monthly Board report on key business performance. The Society's Internal Audit function, with a dual reporting line to the Chief Executive and Chair of Audit Committee, provides independent assurance regarding the adequacy and effectiveness of internal controls across all Group activities. NEDs are involved in all key decisions and receive detailed management information and reports to ensure they have a firm grasp of the Society's business and external operating environment. The NEDs meet formally and informally without Executive Directors present. The Board has an Audit Committee comprising only NEDs, all of whom are considered independent according to the criteria contained in the Code. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience. The Chairman of the Audit Committee receives additional fees in recognition of his added responsibilities. The terms of reference of the Committee are available from the Group Secretary on request. The Society has a policy on the engagement of external auditors to supply non-audit services, which is operated across the Group and in tandem with the external auditor's own internal policy on providing non-audit services. There have been five meetings of the Committee during the financial year 2019/20. Executive Directors and other members of senior management (by invitation only) attended the meetings. Those employees who regularly attend include the Chief Executive, Group Finance & Operations Director, Group Secretary, Chief Risk Officer, Divisional Director Treasury & Finance and Divisional Director Internal Audit. The Board receives regular reports on Committee meetings and also receives copies of the minutes of these meetings. During the last financial year, the Audit Committee: • Validated the integrity of the Group's financial statements (including formal announcements relating to such statements); • Reviewed and approved significant financial reporting issues and accounting policies/issues; • Reviewed the Group's internal controls; • Monitored and reviewed the effectiveness of the Group's Internal Audit function; • Reviewed the external auditor's independence, objectivity and the effectiveness of the audit process, together with the remuneration and terms of engagement; • Recommended the appointment of the external auditor following a competitive tender process; • Confirmed that the Internal Audit function was appropriately resourced; and • Met privately with the Divisional Director Internal Audit and the external auditor.

The 2018 Code's Main Principles	What the Society does to meet the Principles
Remuneration Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	The Board has established a Remuneration Committee, comprising only NEDs, which considers and makes recommendations to the Board on key remuneration decisions relating to Society staff who have been identified in the FCA's Remuneration Code as Code Staff. The Directors' Remuneration Report on pages 53 to 61 explains how the Society, through the Remuneration Committee and Board, approaches the remuneration of Directors and other executives. The Society is subject to the FCA's Remuneration Code, requiring the Society to have a remuneration policy which promotes effective risk management, supports business strategy, objectives and values, and is in the long-term interests of the Society. During the last financial year, the Remuneration Committee: • Reviewed the Society's Remuneration Policy; • Recommended to the Board the Performance-Related Pay Scheme and awards under that Scheme; • Reviewed employee benefits arrangements; • Made recommendations to the Board in respect of the annual salary review; • Reviewed the employee benefits package; and • Reviewed the terms of appointment and benefits of Code Staff. The Board believes that all NEDs should meet the Code's independence criteria on appointment and throughout their term of office and has determined that each of the current Directors is independent in character and judgement and that there are no potential conflicts of interest which would affect their judgement. The consideration of independence included the recognition that the tenure of the Chairman is entering its eleventh year. The current Chairman was appointed to the Board on the 1st January 2010. Consequently, his tenure would, in the absence of explanation, finish in January 2019. However, as the entire Board was refreshed in 2010 it would not be appropriate to completely change the Board again at the same time, i.e. every nine years. Therefore the Society has, for some time, executed a succession plan which has seen new Board members join on a regular basis replacing a planned step down of Board members who joined in 2010. This activity, led by the Chairman, has taken time to execute and continued with Lynne Shamwana joining the Board in February 2019 and Martin Ritchley standing down in July 2019. Now that this plan of rolling succession is nearing successful implementation the Society Board will look to find a new Chair whilst continuing to review and confirm the current Chairman's independence. Our current Chairman is committed to serving the Board until a replacement has been found.

Meetings of the Nominations Committee

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

- Membership of Board committees;
- Board performance evaluation arrangements;
- NEDs reaching the end of their three year term of office;
- NED development;
- Board Succession Planning, including NED recruitment; and
- Training, development and succession planning of the wider leadership team.

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

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

Attendance records – Board and Board Committee meetings

	Board	Nominations	Audit	Risk	Remuneration
Mark Nicholls	10 (10)	6 (6)			7 (7)
Julie Hopes	10 (10)	6 (6)		10 (10)	7 (7)
Victoria Mitchell	10 (10)		5 (5)	10 (10)	
Ashraf Piranie	10 (10)				
Mark Preston	10 (10)	6 (6)	5 (5)	10 (10)	7 (7)
Martin Ritchley (retired 25.7.2019)	4 (4)	1 (1)	1 (1)	4 (4)	4 (4)
Lynne Shamwana	10 (10)		5 (5)	8 (10)	2 (2)
James Turner	10 (10)		5 (5)	10 (10)	
Jonathan Westhoff	10 (10)				

Mark Nicholls
Chairman
2 June 2020

Audit Committee Report

Membership and attendees

The Audit Committee is appointed by the Board and, at 31 March 2020, comprised four Non-Executive Directors:

- James Turner (Chairman);
- Victoria Mitchell;
- Mark Preston; and
- Lynne Shamwana.

The Chairman, Chief Executive, Group Finance & Operations Director, Chief Risk Officer, Group Secretary, Divisional Director Treasury & Finance, the external auditor and Divisional Director Internal Audit also attend by invitation.

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

The Committee met five times during the year, with attendance as detailed on page 49. In addition, the Committee met privately with the external auditor and the Divisional Director Internal Audit.

Roles and responsibilities

The roles and responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees (the 'Smith Guidance').

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

- the provision of assurance to the Board regarding the integrity of the financial statements of the Society, including its annual and any interim reports, reviewing significant financial reporting issues and judgements which they contain. Where board approval is required for other statements containing financial information (for example significant financial returns to regulators and release of price sensitive information), whenever practicable the Audit Committee should review such statements first (without being inconsistent with any requirement for prompt reporting under the Listing Rules or Disclosure and Transparency Rules);
- assessing the adequacy and effectiveness of the Society's internal controls and risk management systems (including conduct risk);
- reviewing and approving the statements to be included in the Annual Report concerning internal controls and risk management;
- reviewing the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements follow proportionate and independent investigation of such matters and appropriate follow up action;
- monitoring and reviewing the effectiveness of the Society's Internal Audit function in the context of the Society's overall risk management system;
- approving the appointment and removal of the Divisional Director Internal Audit, and making recommendations regarding performance objectives and remuneration to the Society's Remuneration Committee as required;
- considering and approving the remit of the Internal Audit function and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- reviewing and assessing the Internal Audit plan;
- considering and making recommendations to the Board, to be put to members for approval at the Annual General Meeting (AGM), in relation to the appointment, reappointment and removal of the Society's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- monitoring the effectiveness of the Society's external auditor, including (but not limited to):
  - approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - approval of their remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
  - reviewing the results of the latest FRC annual inspection in respect of KPMG;
  - assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services; and
  - reviewing and approving in accordance with policy, any proposed employment of employees or former employees of the Society's auditor.

The minutes of the Audit Committee are distributed to the Board, and the Committee Chairman provides a verbal report to the Board meeting immediately following Committee meetings.

A copy of the Audit Committee terms of reference can be obtained from the Group Secretary, on request.

Areas of focus for the Committee in the year

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

a) Financial reporting issues and judgements

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

The Committee also takes note of the work conducted by the external auditor, KPMG LLP, with a view to ensuring that suitable accounting policies have been implemented and appropriate judgements have been made by management.

The key matters that the Committee considered in reviewing the 2019/20 financial statements are outlined below.

In light of recent developments regarding COVID-19, the Committee considered the impact on the production of the financial statements and the audit process, and enhanced disclosures particularly around IFRS 9 and Going Concern.

- **Loan impairment provisions**
  For each mortgage portfolio in the scope of IFRS 9, the Committee confirmed the suitability of the approach to calculating expected credit losses, including refinements made during the year. The Committee had the opportunity to review and challenge the impairment model assumptions, including probability-weighted forecasts of future economic conditions (with sensitivity analysis) and, for the non-core commercial loan book, account-specific scenario data. Based on this review, the Committee agreed that the loss provision requirements were suitably calculated and adequately disclosed.

- **Other provisions**
  The primary component of other provisions is an allowance for the estimated costs of payment protection insurance (PPI) redress. The remaining liability relates to the resolution of complaints released since the FCA deadline of 29 August 2019. The Committee has satisfied itself that the reported PPI provision at 31 March 2020 is reflective of the Society's claims experience to date.

- **Income recognition**
  In accordance with IFRS 9, the Group applies the effective interest method to recognise mortgage interest at a constant yield over the expected behavioural lives of the loans, with the key assumption being the expected loan redemption profile. The Committee reviewed analysis comparing key model assumptions with observed data, in order to determine that interest has been appropriately recognised in the financial statements. The Committee also considered the population of fees captured within the effective interest rate calculations.

- **Investment property valuations**
  The Group applies IAS 40 'Investment Properties' under which the residential properties held by the Society's subsidiary, West Bromwich Homes Limited, are measured at fair value. The Audit Committee has reviewed the methodology adopted to determine the fair value of the properties and concluded that the carrying value of the portfolio at the year-end date is appropriately supported by market data and a sample validation exercise conducted by an independent firm of specialist valuers.

- **Financial instruments at fair value through profit or loss and hedge accounting**
  Following the rules and guidance of IFRS 9, the Society classifies certain assets and liabilities as fair value through profit or loss. This category includes derivatives, employed to mitigate interest rate risk, and the closed portfolio of equity release mortgages. The Committee has reviewed the derivative valuation methodology and the application of IAS 39 to qualifying hedge relationships, including the changes leading to the prior year restatement described in note 43.

  For equity release loans, where market observable data is not readily available, the calculation of fair value is based on a combination of historic redemption profile data and forecasts of economic variables such as house price growth. The Audit Committee noted the approach and assumptions used in the fair value calculations, confirming consistency with other accounting models where relevant. Based on this evaluation, the Committee is satisfied with the fair value of the equity release portfolio recorded in the Society's Statement of Financial Position at 31 March 2020.

- **Deferred taxation**
  Following a detailed evaluation of the Group's Medium Term Plan, the Committee confirmed that the year-end deferred tax asset, in relation to carried forward tax losses, has been recognised at an amount expected to be recoverable within the next five years.

- **Defined benefit pension liability**
  With respect to the Society's funded defined benefit pension scheme, the Audit Committee considered the key actuarial assumptions, as disclosed in note 31 to the accounts, and deemed them suitable for calculating the retirement benefit obligation at 31 March 2020. Based on information provided by the qualified independent actuary, the Committee is satisfied that an appropriate allowance has been made for the equalisation of Guaranteed Minimum Pension benefits between males and females, an obligation falling on all UK defined benefit schemes during the year.

- **Securitisation transactions**
  The Committee considered the derecognition of securitisation entities and the change to the previous accounting methodology described in note 42. The Committee considered the rationale for the change in accounting treatment and the resulting impact on the financial statements.

- **Accounting standard updates**
  The Committee confirmed the reasonableness of the disclosures with regards to new or amended accounting standards. In particular, the Committee agreed that the impact of adopting IFRS 16 'Leases' in 2019/20 was properly disclosed.

- **Going concern and viability statement**
  The Committee performed a thorough review of evidence supporting the going concern and longer-term viability assumptions. In doing so, it examined the Group's strategy and business model, together with capital and liquidity adequacy assessments under current market conditions and stressed scenarios. Thereafter the Committee approved the preparation of the accounts on a going concern basis and considered the longer-term viability statement given in the Directors' Report to be appropriate.

- **Fair, balanced and understandable**
  The Committee considers that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the necessary information for members to assess the Group's position, performance, business model and strategy.

- **External audit**
  The Committee considered matters communicated by the statutory external auditor and concluded that no material adjustments to the financial statements were required.

b) Risk and internal control

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

Further details of actual risk management practices are provided in the Risk Management Report on pages 33 to 39. Through the Committee, the Society's Internal Audit function provides independent assurance to the Board on the effectiveness of the internal control framework. The information received and considered by the Committee during the 2019/20 financial year provided reasonable assurance that there were no material breaches of control and that, overall, the Society maintained an adequate internal control framework that met the principles of the UK Corporate Governance Code.

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

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

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

As part of the external audit process, KPMG LLP performs testing over certain controls supporting the preparation of the financial statements, and reports any deficiencies to the Audit Committee. The Audit Committee takes note of control deficiencies reported and management resolution of these.

The Committee recommends an external 'effectiveness review' of Internal Audit every three years. A review was carried out during the financial year 2017/18, by an external firm appointed by the Committee. In performing their review, information was gathered from a variety of sources including interviews with key business stakeholders, workshops with the Internal Audit team, and a review of key documentation covering all aspects of the Internal Audit function (including file reviews). An external assessment of Internal Audit's readiness to comply with the Chartered Institute of Internal Auditors recommendations on 'Effective Internal Audit in the Financial Services sector', issued in July 2013 (and updated in September 2017), was also included.

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

c) External auditor

KPMG, as KPMG Audit Plc, and since 29 July 2014 as KPMG LLP, has been the Society's auditor since 1993. KPMG was due to rotate off the audit following the year ended 31 March 2021, as required by EU audit legislation. The Committee, in planning for an effective transition, considered the timing of audit firm rotation and agreed to commence a tender process during 2019. As a result of that process, PwC have been appointed as our new external auditor (subject to approval at the Society AGM) for the financial year commencing 1 April 2020.

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

Details of the fees paid to the external auditor for audit and non-audit services are set out in note 6 to the Accounts.

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

As stated above, KPMG will rotate off the audit following the year ended 31 March 2020. The Committee would like to thank KPMG for their work with the Society over the years.

Audit Committee effectiveness

The effectiveness of the Committee was assessed by an external firm in February 2018. The scope of this review considered time management and composition, Committee processes and support, the work of the Committee and future priorities. This review concluded that the Committee operated effectively, being highly rated in each of the areas reviewed.

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

On behalf of the Board

James Turner
Chairman of Audit Committee
2 June 2020

Directors' Remuneration Report

Annual Statement by the Chair of the Remuneration Committee

As Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report which sets out details of pay and benefits, including performance-related pay, for our Executive Directors, and fees paid to Non-Executive Directors.

Before detailing changes to the layout and information contained within the report, it is important to acknowledge upfront the impact of the COVID-19 pandemic, and the Society's response. Despite only representing a period of a few weeks at the end of the financial year, it has clearly already had a significant impact. This is not just in terms of the need to focus on the safety and wellbeing of people, both employees and members, but also in terms of the financial results being reported. The expectation is that the potential consequence of the lockdown will be a severe economic downturn resulting in many firms and individuals finding it difficult to service their borrowing (more detail about our approach to the potential for credit losses is covered in the Chief Executive's Review). Consequently, there has been an immediate impact on the performance-related pay awards. In addition, the Executive Directors have voluntarily waived their 2020/21 pay increase that was agreed before the onset of the crisis. Going forward, the Society unquestionably faces an uncertain and potentially very difficult period ahead. However, whilst uncertainties remain, we are confident in the continuing strength of our balance sheet and financial resilience.

Whilst the financial results may have been negatively impacted, the other challenges presented by the pandemic lockdown have been managed in a highly effective and professional manner. The management team, led by the Executive Directors, acted immediately to follow the government guidelines. Due to advance planning and preparation, the Society responded swiftly to enable people to work from home and reduce the number of people who physically needed to be in our Head Office and branches, ensuring strict adherence to social distancing imperatives. The presence in Head Office reduced to circa 10% to 15% of normal levels, with employees supported by the correct hygiene standards and careful consideration for desk proximity and entrance/exit areas to comply with all guidance. Similarly, branches have operated shorter opening hours, to protect both members and employees in that environment, allowing us to operate with circa 50% of usual staffing levels, working on a weekly rotation basis. Additional protections were also introduced such as screens at branch till points. Clear guidance was provided to customers using the branch to ensure social distancing at both sides of the counter.

All of the above has been achieved whilst continuing to pay our colleagues their usual full pay, regardless of hours worked. The Society decided early in the process not to use the government's furlough scheme, in the belief that such an option is not relevant to a well-capitalised organisation like the West Brom. There are many reasons employees have needed to be at home during the past few months, such as caring for vulnerable relatives or childcare needs. Many of the choices around those who can and cannot work at any moment in time have been as much around the Society's desire for ensuring the wellbeing of its people and members, as it has been to do with operating the business.

Turning to a review of the 2019/20 financial year, the Board continued to adopt voluntarily the relevant requirements of the UK Corporate Governance Code (the Code), in so far as they are considered appropriate for a building society.

The revised Code took effect from 1 January 2019, and the Committee were early adopters of some of these changes during the 2018/2019 financial year. A further review of the Code during this year has resulted in some additional changes, with a particular focus on alignment of pension contributions for Executive Directors with those of all other employees.

This year, we have also published the ratio of the Chief Executive's pay to the wider colleague population. During the year we have undertaken a thorough exercise of benchmarking every role in the Society against the market rate, to ensure we pay fairly and competitively for the level of responsibility of every position. The skillsets and experience required across roles will vary significantly depending on the nature of the role. The Society has colleagues performing a wide range of activities for example, providing catering facilities in our Head Office and technical roles in areas such as Finance and Risk. We are committed to paying all our employees the real living wage as an absolute minimum.

The tables marked 'audited' in this report meet the requirements of the Building Societies Act 1986. The report also complies with EU Capital Requirements Directive IV and the detailed requirements of the Financial Conduct Authority's (FCA's) Remuneration Code (the Remuneration Code). Details of the Remuneration Code can be found at www.fca.org.uk.

Under the Remuneration Code, the Society is required to identify those staff who are considered to have a material impact on the Society's risk profile (Code Staff). This includes all Executive and

Non-Executive Directors and all members of the Society's Executive Committee (ExCo). The key focus of the Committee is to set the remuneration policy for the pay and benefits, including performance-related pay, for such Code Staff. It also has oversight of reward practices for all other employees to ensure alignment to the Society's culture, and the policy for Executive Directors.

This report is presented in two sections:

- The Remuneration Policy – setting out the Remuneration Committee's forward-looking policy with regard to pay and benefits. This year the Committee is proposing a change to the policy in respect of the amount of pension allowance for Executive Directors. Further detail is provided within the policy section, however in brief, this reflects a reduction in Society pension contribution (or cash in lieu of pension) as part of a three year strategy to align pensions with that of all other employees. The Committee accepted the decision of Executive Directors (and indeed of Divisional Directors) to opt voluntarily to migrate to align in this way, without any compensation for this contractual concession. This three year migration of pension contribution will commence from 1 April 2020. Given the proposed changes and the Society's decision to put any changes to the Remuneration Policy to a member binding vote, a revised policy will be subject to a further binding vote in 2020.
- The Annual Remuneration Report – detailing the amounts earned by Directors in respect of the financial year ended 31 March 2020 and how the policy will operate for the year ending 31 March 2021.

All eligible members receive a copy of the Remuneration Report and are entitled to participate in the advisory vote on the Annual Remuneration Report and Binding Vote on the Remuneration Policy at the 2020 AGM.

The Chief Executive's Review reported that the Society performed strongly in 2019/20, with statutory profit before tax of £1.5m. After excluding the impact of Q4 COVID-19 related provisions of £14.7m, profit before tax would have been significantly higher. New residential lending of £569m contributed to a 3% increase in the prime owner occupied book, while the Society's exposure to riskier commercial lending, an exposure that is in run-off, was down 6% year on year. This commercial exposure has reduced by 75% since the strategy was introduced in March 2008.

As reported in 2018, Mr Ashraf Piranie took up the role of Group Finance & Operations Director on 13 March 2017. The package offered to Mr Piranie was in line with that detailed in the Remuneration Policy. In accordance with this Policy, the Board agreed to compensate Mr Piranie, who was required to forego an element of his performance-related pay awards from his previous employer. It was agreed that this compensation would replicate, as far as possible, the amount and terms that he would have received had he stayed in post. Accordingly, during the 2019/20 financial year, Mr Piranie received a payment of £42,000, subject to validation with his previous employer that no reduction in the amount of the deferred variable amount attributable to 'unvested variable remuneration' is expected, the outstanding amount of this compensation is expected to total circa £13,000, payable in 2020.

Salary increases

For the financial year 2019/20 the Chief Executive and Group Finance & Operations Director received a pay increase of 2.25%, the same as the increase given to all other eligible staff. On 1 April 2020 both Executive Directors were awarded, following an external benchmarking exercise an increase of 2.5%. The benchmark report placed the Chief Executive's salary at the 'lower end' of the basic salary range for the benchmarked organisations, and the Group Finance & Operations Director just below the average. However, given the current pandemic crisis the Directors have offered to forego this salary increase.

The Society introduced a revised approach to pay and reward for employees during the year. Salary changes have been based upon robust external benchmarking to ensure employees are paid in line with the market rate for their role. On this basis, salary increases for other eligible employees ranged between 0% and 21%.

Performance-related pay awards

The Executive Director performance-related pay award payable to the Chief Executive and Group Finance & Operations Director generated awards of 38% and 37% of salary respectively. These payments reflect the delivery of both personal and Society objectives including financial measures, the management of risk, customer and people measures and new and enhanced operational capabilities. Further detail on the Society objectives is provided within page 60 of this report.

Deferred performance-related payments in relation to 2016/17, 2017/18 and 2018/19 for the Chief Executive, Group Finance & Operations Director, and former Group Finance & Operations Director have been approved for payment since the end of the 2019/20 financial year.

The Committee has not exercised its discretion in the Policy to increase the maximum performance-related pay award to 75% of basic salary. This will remain at 50% of salary for 2020/21.

Fees for the Chairman and other Non-Executive Directors were reviewed for the 2019/20 financial year and no increases were applied. A further review for the 2020/21 financial year also resulted in no increase in fees for the Chairman or any Non-Executive Director. Non-Executive Director fees (other than the Chairman) have remained unchanged for the last ten financial reporting periods.

Gender pay

In February 2020 the Society published its update report on the gender pay gap. The reasons behind the gender pay gap results remain a key focus for the Society, however it is pleasing to note the volume of female employees as successors for many of the more senior positions. Whilst the Society continues to take steps to attract and develop female colleagues at senior levels, to reduce the pay gap significantly will also require attracting more men into entry level positions; in effect achieving a balance at both ends of the pay scale. A full copy of the report can be found on the Society's website at www.westbrom.co.uk.

Julie Hopes
Chair of Remuneration Committee
2 June 2020

Remuneration Committee membership and responsibilities

Membership

The members of the Remuneration Committee during the financial year 2019/20 were: Julie Hopes, Mark Nicholls, Mark Preston, and Martin Ritchley (until July 2019). Lynne Shamwana was appointed to the Committee in October 2019, following Martin Ritchley stepping down from the Board at the end of July 2019.

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

The Society's Chief Executive, Group Finance & Operations Director, Group Secretary and Divisional Director Human Resources attend meetings by invitation.

Responsibilities

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

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

The Committee is required to meet at least twice a year. During the year there were seven meetings, two of these meetings were attended by all Board members.

The Committee considered the following matters during the year:

- Determining the pay and benefits of Executive Directors, the Chairman, Code Staff and other senior managers and recommending to the Board for approval, where appropriate;
- Determining the pay and benefits for employees, including oversight and approval of a revised approach to pay, reward and recognition, aligned with the ethos of a mutual organisation and the Society's overarching Purpose;
- Determining the level of performance-related pay in relation to the 2019/20 financial year and deferred awards due during the year for Code Staff and recommending to the Board for approval;
- Recommending to the Board the Society and individual performance-related pay objectives for Code Staff in relation to the 2020/21 financial year;
- Considering the approach to be adopted in respect of disclosure requirements in relation to this report; and
- Considering the approach for the Gender Pay Regulations.

The Committee receives annual confirmation jointly from the Group Secretary, Chief Risk Officer and the Divisional Director Internal Audit that no activity or behaviour by any individual has been identified or observed which should affect their eligibility to participate in performance-related pay arrangements. Confirmation of such has been received this year.

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

The Terms of Reference for the Committee were last updated in October 2019. The Terms of Reference are available on request from the Group Secretary.

Advisors

The Remuneration Committee seeks the advice of independent, external consultants, as required. During the 2019/20 year the Committee commissioned Deloitte to undertake a thorough benchmark of remuneration for Executive Directors.

Broader stakeholder views

As a mutual, we are committed to taking on board the views of our members and employees, ensuring the topics discussed at the Board are inclusive of these broader stakeholder perspectives. This also applies to remuneration practices, and during the year the Chair of the Remuneration Committee held discussions with the Member and Employee Councils in respect of Executive Director remuneration including pension arrangements in the context of the revised Code of July 2018, seeking views on application of the policy for 2020/21. Members of both councils were extremely positive about the Directors decision to voluntarily reduce their pension contributions to align with other employees, and felt this reflected a very positive culture at the Society. The resultant views expressed were communicated to the Remuneration Committee.

Section 1 – The Remuneration Policy

Background

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

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

The approach of the Remuneration Committee is to ensure that Executive Directors' remuneration is designed to promote the long-term success of the Society, with full consideration of other stakeholders such as members, employees and regulators.

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

The Society's remuneration principles are as follows:

- The Policy is in line with the strategy, objectives and values of the Society, thereby aligning it with both short and long-term interests;
- The policies, procedures, remuneration practices and performance-related payment schemes are consistent with the promotion of good and effective risk management and are structured in such a way as to discourage risk taking which is outside the Society's risk appetite;
- The Society's focus is on improving the underlying business position where management can influence performance. The Society's performance-related pay schemes may therefore exclude the impact of specific one-off items which would be agreed at the outset by the Society's Board following a recommendation by the Remuneration Committee;
- All remuneration packages are designed such that the Society can attract and retain high calibre individuals;
- Performance measures for individuals are challenging and robust, and measured on a consistent basis; and
- Performance-related pay is performance dependent, an element of which is deferred over a three year period, to allow the Remuneration Committee to review whether the payment remains appropriate, and providing the ability to reduce or cancel the payment. The Committee also has discretion to recover payments previously made (clawback), should information come to light subsequent to the payment being made, that would have resulted in the Committee withholding the payment, had this information been known.

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

Remuneration policy and practice

Components of remuneration

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

Component	Operation and performance metrics	Opportunity
Basic salary Fixed remuneration set to attract and retain Executives of sufficient calibre through the payment of competitive rates.	Reviewed annually (or more frequently if required). Influencing factors include: role and experience, personal performance, salary increases awarded across the Society, and benchmarking comparisons against organisations of a similar size/complexity, and roles of similar responsibilities.	Set at a level considered appropriate, taking into account the relevant factors tabled. The Committee considers very carefully any pay awards which do not reflect the wider increases across the Society and will only make them where there is a clear commercial rationale for doing so.
Performance-related pay Linked to the delivery of Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives.	40% of the performance-related pay earned is deferred over a three year period. Deferred payments are made in equal instalments over the following three years, are subject to annual review and recommendation by the Committee and require approval by the Non-Executive members of the Board. The Committee has discretion to make a reduction in the level of award (down to zero) or recover awards if necessary including withholding vested awards (malus arrangements) and recovering payments (clawback arrangements) for a period of three years after the award is paid. The annual review prior to payment of a deferred element will take into account a number of factors, making sure management has operated within the risk appetite of the Society, not exposed the Society to regulatory or control failings, or taken other such actions that would represent a poor outcome for members. All awards are non-pensionable. Based on a number of measures, including: financial, customer, people, risk and new and enhanced operational capabilities. Reviewed by the Committee annually to ensure that the measures are appropriate.	The Committee has the discretion to allow maximum annual opportunity of 75% of basic salary (as approved by voting members at the 2018 AGM). However, the maximum opportunity for 2020/21 remains at 50% of basic salary.

Component	Operation and performance metrics	Opportunity
Pension or pension allowance A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors are invited to join the Society's stakeholder pension plan or, as an alternative, be provided with a cash allowance (for example, where they have exceeded the annual or lifetime allowance).	For new Executive Directors, a pension contribution or cash allowance equal to the maximum pension contribution available to all other employees (for 2020/21 10.6%). For the current Executive Directors, a cash allowance reducing to the maximum contribution available to all employees (currently 10.6%), over three years: • From April 2020 reducing from 25% to 20%; • From April 2021 reducing to 15%; • From April 2022 reducing to 10.6% (or any such amount equal to the maximum for all employees should this change).*
Benefits A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.	Executive Directors receive benefits in line with market practice, which include a fully expensed car or cash allowance, private medical care for themselves and their family, and life assurance (4 X basic salary). Other benefits may be provided in individual circumstances.	Set at a level considered appropriate, as part of a review of total compensation arrangements.

*The UK Corporate Governance Code, updated in July 2018, includes a new provision that pension contributions for Executive Directors, or payments in lieu, should be 'aligned with' those available to the workforce.

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

Component	Operation	Application
Fees To attract and retain Non-Executive Directors of the right calibre for the Society.	Fees are reviewed annually for Non-Executive Directors by the Chairman and Executive Directors. Fees for the Chairman are recommended by the Remuneration Committee and approved by the Board. The Chairman is not present when his fees are discussed or approved.	Fees are set at a level to attract individuals with the appropriate knowledge and experience and to reflect the responsibilities and time commitment for Board and Board Committees, taking into account market practice. Reimbursement is also made for reasonable travel expenses for attending meetings/Society business.

Whilst Non-Executive Directors do not participate in any performance-related pay scheme, their overall performance is reviewed annually by the Chairman.

Recruitment policy for Executive Directors

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

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

Component	Application
Basic salary	A Director would receive an amount commensurate with their experience and responsibilities.
Benefits	A Director would receive comparable benefits to existing Directors, although if required to attract the right candidate these may be widened to include additional benefits, such as a relocation allowance.

Component	Application
Performance-related pay	The maximum performance-related award would be in line with current policy, unless the market rate required to recruit the individual supported a higher amount. In any event, this would be no more than what is considered commercially justifiable.
Pension or pension allowance	An Executive Director would have the option to join the Society's stakeholder pension scheme or to receive a cash allowance up to the maximum pension contribution available to all employees, which for 2020/21 is 10.6% of salary (with the cash allowance option subject to deduction of tax and national insurance).
Recruitment compensation	Compensation arrangements are only considered if the new Director was required to forego an arrangement from their previous employer. In such instances the award would be no more in terms of amount than the award due to be foregone. The timing and vesting requirements of any payment would be replicated as far as possible.

Section 1 – The Remuneration Policy (continued)

The Remuneration Committee has the right to exercise discretion within the Policy, and recommend to the Board an override of any formulaic approach laid out in the PRP Scheme Rules should it be deemed appropriate in line with good corporate governance.

In recommending remuneration arrangements for new hires, the Committee will consider the value of the total package on offer compared to similar positions in the market, the structure of the remuneration and the experience of the candidate, to ensure that arrangements are in the best interests of both the Society and its members, without paying in excess of what is deemed necessary to recruit a Director of the required calibre.

Recruitment policy for Non-Executive Directors

As with Executive Directors, the approach is to offer a package that is sufficient to recruit an individual of sufficient calibre, but to pay no more than is necessary to attract the appropriate candidate.

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

Service contracts

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

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

Policy on payment for loss of office

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

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

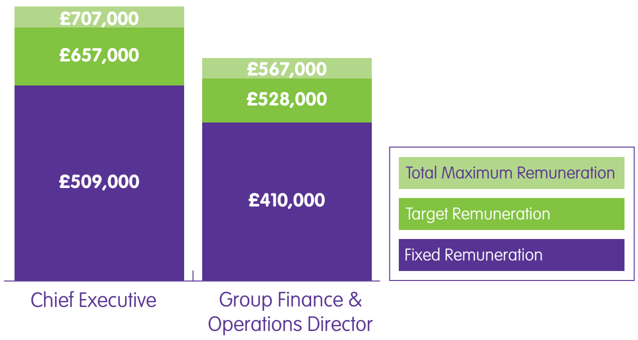
Employment conditions elsewhere in the Society

The pay and benefits of employees are considered annually by the Committee, which also determines the amount of general performance-related pay. The Society, subject to eligibility, offers a comprehensive range of benefits to employees, including pension, life assurance, health care, employee car scheme and performance-related pay. In April 2019 an increase in salary of 2.25% was agreed for employees. From April 2020 a revised approach to pay and reward has been implemented, with a review of salary for each employee based on robust external benchmarking, taking into account the market rate and level of responsibility for each role. As a result, from April 2020, base salaries have increased between a range of 0% to 21%.

Remuneration scenarios

The following charts show the breakdown of the component parts of the remuneration package for Executive Directors for 2019/20 on the following basis:

- Fixed remuneration – comprising of basic salary, pension and benefits (excluding compensation for the Group Finance & Operations Director in respect of performance-related pay foregone from his previous employer, as explained on page 59).
- Target remuneration – the anticipated annual remuneration incorporating a performance-related award.
- Maximum remuneration – the maximum remuneration that could be awarded.



When developing the scenarios, the following assumptions were made:

- Fixed remuneration includes basic salary, pension and benefits (excluding compensation for the Group Finance & Operations Director in respect of performance-related pay foregone from his previous employer, as explained on page 59) only;
- Target remuneration is based on a performance-related award of 37.5% of basic salary; and
- Maximum award is based on a performance-related award of the maximum achievable which is 50% of basic salary (as stated on page 56 the Remuneration Committee has the right to allow an increase in performance-related award to 75% if deemed appropriate, with effect from financial year 2019/20).

Section 2 – Annual Report on Remuneration

Non-Executive Director fees (audited)

Non-Executive Director	Date appointed	2019/20 Fees [2] £000	2019/20 Benefits [1] £000	2018/19 Fees [2] £000	2018/19 Benefits [1] £000
Mark Nicholls (Society Chairman)	01/01/10	120	4	120	3
Julie Hopes (Remuneration Committee Chair. Deputy Chair from 01/08/19)	01/04/16	67	4	55	3
Mark Preston (Risk Committee Chair)	18/05/11	60	4	60	3
Martin Ritchley - until 31/07/19 (Deputy Chair until 31/07/19)	01/09/09	23	3	70	2
Richard Sommers - until 30/07/18	01/10/09	-	-	17	1
Colin Walklin - until 31/12/18	20/07/11	-	-	41	2
James Turner (Audit Committee Chair)	01/04/17	60	1	57	1
Victoria Mitchell	01/04/18	50	1	50	1
Lynne Shamwana	01/02/19	50	3	8	-
Total		**430**	**20**	478	16

Notes:
1. In addition to the payment of fees, Non-Executive Directors receive expenses for travel and accommodation in relation to their attendance at meetings.
2. Fees for Non-Executive Directors, at the rate shown above, have been in place since April 2010. Fees for the Society's Chairman were last increased in April 2014.

Executive Director remuneration – 2019/20 (audited)

Executive Director		Basic salary £000	Performance-related pay [1] £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff	(Chief Executive)	395	150	99	15	**659**
Ashraf Piranie	(Group Finance & Operations Director)	314	116	78	60 [2]	**568**
Total		**709**	**266**	**177**	**75**	**1,227**

Executive Director remuneration – 2018/19 (audited)

Executive Director		Basic salary £000	Performance-related pay [1] £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff	(Chief Executive)	386	166	97	12	661
Ashraf Piranie	(Group Finance & Operations Director)	307	128	77	49 [3]	561
Total		693	294	174	61	1,222

Notes:
1. Includes an element that is subject to deferral. The table headed 'Executive Director deferred performance-related pay payable in future years' details the amount due for payment, subject to review by the Committee at the appropriate time.
2. Mr Piranie received compensation of £42,000 which was determined with reference to the amount of performance-related pay award that he would have received from his previous employer if he had stayed in post.
3. Mr Piranie received compensation of £31,568 which was determined with reference to the amount of performance-related pay award that he would have received from his previous employer if he had stayed in post.

For 2019/20 a review of performance against objectives agreed at the start of the year has generated awards for Executive Directors of 38% for the Chief Executive and 37% for the Group Finance & Operations Director (against maximum performance-related pay of 50%) resulting in the amounts shown in the 'Executive Director remuneration – 2019/20' table. These payments are based on performance against both Society and personal objectives.

For Executive Directors, 30% of their maximum award is based on Society objectives and 20% on personal objectives. A review of performance against personal objectives agreed at the start of the year has generated awards of 16% for the Chief Executive and 15% for the Group Finance & Operations Director. Awards agreed against Society objectives are detailed overleaf.

Section 2 – Annual Report on Remuneration (continued)

Society overall objectives for the year include:

Objectives	% of overall award potential	% of award achieved
Financial • Profitability • Net interest margin • Cost efficiency	4.5%	3%
Customer • Gross residential lending • Retention of lending • Customer satisfaction	6%	4.2%
Change • System enhancement and implementation	6%	3.75%
Risk • Operational resiliency • Ensuring robust credit risk capability for new lending products • Developing an internal ratings based approach to risk	4.5%	4%
People • Strengthening diversity • Enhancing and modernising pay and reward practices	3%	1.8%
Overall assessment by the Board of executive performance	6%	5.25%
Overall Society objectives	30%	22%

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

Executive Director deferred performance-related pay
Payable in future years

		Payable after year ending			
Executive Director	**Deferred from**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Jonathan Westhoff	2016/17	19	-	-	-
	2017/18	22	22	-	-
	2018/19	22	22	22	-
	2019/20	-	20	20	20
Total		**63**	**64**	**42**	**20**
Mark Gibbard	2016/17	17	-	-	-
Total		**17**	**-**	**-**	**-**
Ashraf Piranie	2017/18	17	17	-	-
	2018/19	17	17	17	-
	2019/20	-	15	15	15
Total		**34**	**49**	**32**	**15**

Chief Executive Officer (CEO) pay ratio

The Companies (Miscellaneous Reporting) Regulations 2018, came into force for accounting periods starting 1 January 2019 and requires the publication of the ratio of the CEO's total remuneration. Whilst the requirement applies to 'quoted' companies with more than 250 UK employees, the Committee has chosen to comply with the regulation.

We have chosen to use the government's preferred methodology (option A) which requires calculation of total full-time equivalent of pay and benefits of all its UK employees for the financial year, and compare the median, 25^{th} and 75^{th} percentiles against the CEO single figure. The ratios are shown overleaf calculated as at 31 March 2020.

Year	Method	25th percentile	Median	75th percentile
2020	Option A	31:1	24:1	16:1

Remuneration element	25th percentile (£)	Median (£)	75th percentile (£)
Total Pay and benefits	£20,717	£26,987	£39,929
Salary	£18,751	£24,345	£35,000

Statement on member voting at the 2019 AGM and binding vote at the 2018 AGM

At the 2019 AGM members voted on one resolution, the results of which are shown below:

Approval of the Directors' Remuneration Report (advisory vote, i.e. not conditional on resolution being passed):

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Report	15,835	91%	1,566	386

At the 2018 AGM members voted on the Directors' Remuneration Policy, the results of which are shown below.

Approval of the Directors' Remuneration Policy (binding vote):

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Policy	15,671	89.5%	1,839	364

* The withheld figures are not included in the calculation of % 'Votes for'.

Application of the Remuneration Policy for 2020/21

The Remuneration Committee is required annually to review the salaries of the Executive Directors.

The Remuneration Committee undertook a benchmarking exercise of remuneration for Executive Directors in January 2020. However, since this exercise the Directors have chosen to opt voluntarily to a reduction in pension contribution as detailed within the report, and have also offered to forego the salary increases approved by the Remuneration Committee effective from April 2020, demonstrating alignment with the Society's values and the strong culture at the West Brom. The Committee has chosen not to apply its discretion to increase the performance-related pay award.

The annual salary review for employees was based on robust benchmarking data for every role, taking into account the level of responsibility and the external market rate for each position. This constitutes a change from previous practice of applying a standard increase across all roles, and resulted in increases ranging between 0% and 21% from 1 April 2020.

The Executive Directors have voluntarily opted to reduce their existing pension arrangements to align with the rest of employees. This will form part of a three year strategy for existing Executive Directors, with reductions as follows:

- From April 2020 reducing from 25% to 20%;
- From April 2021 reducing to 15%;
- From April 2022 reducing to 10.6% (or any such amount equal to the maximum contribution available to all employees at this date).

Non-Executive Directors, including the Chairman, received no increase in fees from April 2020.

Clearly the Society has a very significant challenge ahead, although it is very well positioned to deal with it. However, whilst uncertainties remain, we are confident in the continuing strength of our balance sheet and financial resilience. Strategies deployed over the past 10 years have demonstrated the ability to manage even the most extreme of crisis very effectively. The Society has a management team with a proven track record in this context. The Committee's focus next year will be based on the evidence to support demonstration of such recovery.

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

Julie Hopes
Chair of Remuneration Committee
2 June 2020

Independent auditor's report

to the members of West Bromwich Building Society

1. Our opinion is unmodified

We have audited the Group and Society annual accounts of West Bromwich Building Society for the year ended 31 March 2020 which comprise the Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Members' Interests and Equity, Statements of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 March 2020 and of the income and expenditure of the Group and Society for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it and, as regards the Group annual accounts, Article 4 of the IAS regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the members in 1993. The period of total uninterrupted engagement is for the 28 financial years ended 31 March 2020.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£1,000k (2019: £1,000k) 0.26% of Group net assets (2019: 0.8% of Group interest receivable)
Coverage	100% of Group net assets (2019: 100% of Group interest receivable)

Key audit matters		**vs 2019**
Event driven	**New:** Going Concern	▲
Recurring risks	Expected credit losses on loans and advances FSOL	▲
	Valuation of investment properties	▲
	Expected credit losses on loans and advances FSRP	▲
	Revenue recognised on an effective interest rate basis	▲
	New: Valuation of defined benefit pension scheme obligation	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Going concern

Refer to page 44 (Director's report), page 51 (Audit Committee Report) and page 79 (accounting policy).

The risk	Our response
Disclosure quality: The financial statements explain how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and the Society. That judgement is based on an evaluation of the inherent risks to the Group's and the Society's business model and how those risks might affect the Group's and Society's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to affect the Group's and Society's available financial resources over this period is an increase in the level of impairment in loans and advances to customers. This could impact on the Group's and Society's available financial resources, leading to insufficient regulatory capital to meet minimum regulatory capital levels over the course of the next 12 months. There are also less predictable but realistic impacts, such as the impact of Coronavirus COVID-19 on liquidity and operational resilience. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt on the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: — **Our sector experience:** We considered the directors' assessment of COVID-19 related sources of risk for the Group's and Society's businesses and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Challenge of assumptions:** We assessed the Group's and Society's forecast profitability, and the Group's capital and liquidity models to identify key assumptions. We challenged the reasonableness of assumptions underpinning the Group's and Society's forecasts. — **Sensitivity analysis:** We assessed the stressed scenarios used by the Group and Society in forecasting profitability, capital and liquidity and the viability of possible management actions. — **Enquiry of regulators**: We engaged with the Prudential Regulation Authority to understand their assessment of the Group's and Society's capital position. — **Assessing transparency:** We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the financial statements using our knowledge of the relevant facts and circumstances developed during our audit work, considering the economic outlook, key areas of estimation uncertainty, including in particular the level of impairment of loans and advances to customers, and mitigating actions available to the Society to respond to these risks. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable.

2. Key audit matters: our assessment of risks of material misstatement

Expected credit losses for commercial loans and advances (loans fully secured on land, "FSOL")

Group: £81.8 million; 2019: £70.7 million.

Refer to page 51 (Audit Committee Report), page 83 (accounting policy) and page 100 (financial disclosures).

The risk	Our response
Subjective estimate: The expected credit loss ('ECL') for commercial loans (loans fully secured on land ('FSOL')) is derived from a model which determines the present value of estimated future cash flows attributable to the individual loans. This methodology is predicated on a work out strategy followed by management in optimising the recovery of loans. Given the subjectivity inherent in estimating the recoverability of loan balances on a forward-looking basis, the assessment of ECLs is highly judgemental. The subjectivity in respect of these assumptions has increased further at the current year end as a result of the uncertainties arising from COVID-19. In particular, judgement is required on the key areas of: — **Significant increase in credit risk ('SICR'):** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. — **Model estimations:** Inherently judgemental assumptions are used to estimate ECLs, particularly in determining collateral valuation and property exit yields; rental yields and income forecasts; the expected date of sale; and discount rates. These assumptions are the key drivers of the ECL results and are therefore the most significant judgemental aspect of the Group's ECL modelling approach. — **Economic scenarios:** IFRS 9 requires the Group to measure ECLs on an unbiased-forward looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them. The effect of these matters is that, as part of our risk assessment, we determined that the expected credit loss on loans and advances FSOL has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and potentially many times that amount. The financial statements (note 1) disclose the sensitivities estimated by the Group. **Disclosure quality:** The disclosures regarding the Group's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL results.	Our procedures included: — **Tests of details:** We performed credit file review procedures for a selection of loans to critically assess the ECL stage applied to individual loans and the ECL recognised against each loan. — **Benchmarking assumptions:** We compared the key assumption of exit yields to externally available data on market yields for equivalent property types and critically assessed the assumptions applied. — **Test of details:** We challenged the appropriateness of assumptions regarding collateral values, rental yields and other cash flows on individual accounts by comparing to supporting documentation, such as lease agreements, market valuations and other evidence, including considering the impact of uncertainties arising from COVID-19. — **Historical comparisons:** We considered the appropriateness of assumptions regarding rental yields and other cash flows on individual accounts by comparing these to actual rental or other income received in recent periods. — **Our market expertise:** Our in-house valuation specialists critically assessed the discount rate curve applied in the impairment assessment against market data and forecasts. — **Benchmarking assumptions**: We critically assessed management's economic assumptions by comparing against market forecasts and other comparable information to consider their reasonableness. — **Evaluating directors' intent:** We performed procedures to critically assess the Group's ability and intent to apply the workout strategy to support the forecast scenarios in the ECL assessment. — **Assessing transparency:** We evaluated the adequacy of the Group's disclosures regarding the degree of estimation involved in arriving at the expected credit loss amount and its sensitivity to key assumptions. This included an assessment of the reasonableness of the sensitivities disclosed in light of the increased uncertainty arising from COVID-19. **Our results** We found the resulting estimate of expected credit losses for commercial loans and advances (loans fully secured on land, 'FSOL') to be acceptable (2019: acceptable).

2. Key audit matters: our assessment of risks of material misstatement

Valuation of investment property

Group: £138.9 million; 2019: £134.7 million.

Refer to page 51 (Audit Committee Report), page 80 (accounting policy) and page 103 (financial disclosures).

The risk	Our response
Subjective valuation: A portfolio of residential investment properties is held by West Bromwich Homes Ltd. These investment properties are carried at fair value, with changes in the fair value recognised in the Income Statement. The Directors use third party experts, being external valuation experts, to assess the fair value of the properties with reference to current market prices. Given the number of properties in the portfolio and the reduction of properties coming to market around the reporting date, due to the COVID-19 pandemic, there is significant uncertainty in the calculation of the fair value. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and potentially many times that amount. The financial statements (note 1) disclose the sensitivities estimated by the Group. **Disclosure quality:** The disclosures regarding the estimation uncertainty arising in respect of the valuation are key to explaining the judgements involved in the valuation recognised.	Our procedures included: — **Benchmarking assumptions:** We challenged the valuations applied by comparing the movement in value of the portfolio to externally available house price indices at both a national and regional level. — **Benchmarking assumptions:** We challenged the appropriateness of the valuations by considering externally available data in relation to the impact of the COVID-19 pandemic on market prices at the reporting date. — **Tests of details:** For each of the investment properties, we agreed valuation records to values provided by the Group's appointed external valuers and assessed the reasons for the valuations selected by management; — **Our market expertise:** For a sample of properties, our specialists critically assessed the valuation used by the Directors and concluded as to its reasonableness. — **Assessing valuers' credentials**: We evaluated the competence, objectivity and independence of experts engaged by the Directors to perform property valuations. — **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the judgements made in determining a valuation and the sensitivity to key assumptions. **Our results** We found the resulting valuation of investment properties to be acceptable (2019: acceptable).

2. Key audit matters: our assessment of risks of material misstatement

Expected credit losses on loans and advances fully secured on residential property ('FSRP')

Group: £7.0 million; 2019: £6.0 million.

Society: £2.4 million; 2019: £1.2 million.

Refer to page 51 (Audit Committee Report), pages 82 to 83 (accounting policy) and page 100 (financial disclosures).

The risk

Subjective estimate:

The Directors use models to determine the level of ECL required to be recognised on each loan. Given the subjectivity inherent in estimating the recoverability of loan balances on a forward-looking basis, the assessment of ECLs becomes highly judgemental. The subjectivity in respect of these assumptions has increased further at the current year-end as a result of the uncertainties arising from COVID-19.

In particular, there is subjectivity in the following key areas:

— **Significant increase in credit risk ('SICR'):** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's and Society's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded.

— **Model estimations:** Inherently judgemental modelling is used to estimate ECLs, particularly in determining Probabilities of Default ("PD") and Loss Given Default ("LGD"), including collateral valuations. The PD and LGD assumptions used in the models are the key drivers of the ECL results and are therefore the most significant judgemental aspect of the Group's ECL modelling approach.

— **Economic scenarios:** IFRS 9 requires the Group and Society to measure ECLs on an unbiased-forward looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them.

— **Post-model adjustments:** The overall level of expected credit losses recognised is also sensitive to the application of post-model adjustments made by management in respect of COVID-19.

The effect of these matters is that, as part of our risk assessment, we determined that the expected credit loss on loans and advances FSRP has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and potentially many times that amount. The financial statements (note 1) disclose the sensitivities estimated by the Group.

Disclosure quality:

The disclosures regarding the Group's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL results.

Our response

Our procedures included:

— **Historical comparisons:** We critically assessed certain assumptions used in the model, being LGD and PD, against the Group's historical experience. This included assessing the accuracy of the model's predicted PDs against actual default experience, and comparing valuation haircuts assumptions used in estimating LGDs against actual historical sales data of the Group and Society.

— **Benchmarking assumptions**: We compared assumptions and judgements made by management, for example regarding significant increase in credit risk criteria and the definition of default, against comparable peers to assess their reasonableness.

— **Tests of details:** We critically assessed the collateral valuations used in the ECL model by comparing the original valuation to the underlying valuation report for a selection of loan accounts and recalculating the indexation applied to the original valuation in determining a current collateral valuation for those loan accounts.

— **Our market expertise:** Our economics specialists assessed the forward economic guidance applied by the Group in the ECL models to consider the reasonableness of assumptions against market data, our own independent assumptions and peer experience. This included considering the impact of uncertainties arising from COVID-19 in the current economic forecasts.

— **Sensitivity analysis:** We performed stress testing on the key assumptions to assess the sensitivity of the resulting expected credit loss to these.

— **Test of details**: We critically assessed adjustments made outside of the Group's and Society's models by challenging the calculation methodology applied and critically assessing the assumptions used in determining the value of the post-model adjustments recognised.

— **Assessing transparency:** We evaluated the adequacy of the Group's disclosures in note 1 regarding the degree of estimation involved in arriving at the expected credit loss amount and its sensitivity to key assumptions. This included an assessment of the reasonableness of the sensitivities disclosed in light of the increased uncertainty arising from COVID-19.

Our results

We found the resulting estimate of expected credit losses on loans and advances FSRP to be acceptable (2019: acceptable).

2. Key audit matters: our assessment of risks of material misstatement

Revenue recognised on an effective interest rate basis

Group: £101.8 million; 2019: £101.2 million.

Society: £74.1 million; 2019: £72.6 million

Refer to page 50 (Audit Committee Report), page 80 (accounting policy) and page 90 (financial disclosures).

The risk	Our response
Subjective estimate: Using a model, interest earned and fees earned and incurred on loans and advances to customers are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected income and costs over the expected lives of the loans. The directors apply judgement in assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement is the estimation of the future redemption profiles of the loans. This judgement is informed by product mix and past borrower behaviour of when loans are redeemed and management's commercial approach to retaining mortgage customers who are approaching the end of a promotional rate period. The effect of these matters is that, as part of our risk assessment, we determined that revenue recognised on an effective interest rate basis has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivities estimated by the Group. **Disclosure quality:** The disclosures regarding the estimation uncertainty arising in respect of the EIR adjustment are key to explaining the judgements involved in the revenue recognition process.	Our procedures included: — **Benchmarking assumptions**: We critically assessed the expected customer lives against our own knowledge of industry experience and trends, including benchmarking with comparable lenders. — **Historical comparison:** We critically assessed the expected life assumptions against the Group's and Society's historical experience of customer behaviour by product type. — **Expectation vs outcome:** We applied alternative statistics based methodologies, based on actual redemptions experience, to create an expectation of the expected repayment profiles and hence the calculated EIR adjustment. We compared our result to the Group's and Society's EIR adjustment and assessed whether the expected repayment profile assumptions were appropriate. — **Methodology implementation**: We assessed the appropriateness of the segmentation of the portfolio, for the allocation of separate redemption profiles. — **Assessing transparency**: We assessed the adequacy of the Group's and Society's disclosures about the degree of estimation involved in arriving at the interest income recognised and its sensitivity to key assumptions. **Our results** We found the resulting estimate of revenue recognised on an effective interest rate basis to be acceptable (2019: acceptable).

2. Key audit matters: our assessment of risks of material misstatement

Valuation of defined benefit pension scheme obligation	
Group and Society: £108.9 million; 2019: £113.9 million	
Refer to page 51 (Audit Committee Report), page 86 (accounting policy) and pages 112 to 114 (financial disclosures).	
The risk	**Our response**
Subjective estimate: The Group has a material obligation in respect of its defined benefit pension scheme, which is currently in a deficit position. Actuarial assumptions used in the determination of the defined benefit obligation are inherently subjective and require expertise and judgement in their estimation. There is a significant degree of estimation uncertainty in respect of certain of these assumptions, and small changes in the assumptions used to value the pension obligation (before deducting the value of scheme assets) could have a significant effect on the Group's net pension deficit. The most significant assumptions used in the valuation are: — Discount rate; — Inflationary increases (for RPI and CPI); and — Mortality rates. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the defined benefit pension scheme obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and potentially many times that amount. The financial statements (note 31) disclose the sensitivities estimated by the Group. **Disclosure quality:** The disclosures regarding the estimation uncertainty arising in respect of the valuation of the defined benefit pension scheme obligation are key to explaining the judgements involved in determining the obligation recognised.	Our procedures included: — **Evaluation of actuary**: We evaluated the competence, independence and objectivity of the Group's actuary in assessing management's reliance upon their expert valuation services. — **Benchmarking actuarial assumptions:** We critically assessed, using our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rates and mortality rates against externally derived data and internal experience. — **Expectation vs. outcome:** We carried out substantive analytical procedures over the deficit funding contributions, payroll contributions and benefit payments data used by our actuarial specialists to consider whether these are in line with our expectations. — **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to the actuarial assumptions. **Our results** We found the resulting valuation of defined benefit pension scheme obligation to be acceptable.

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union on our audit. However, as time has passed since Article 50 was first triggered, and the UK has now left the EU, the Group has had more time to plan for different scenarios of exit and the level of understanding about how Brexit might impact the Group has increased. Therefore, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

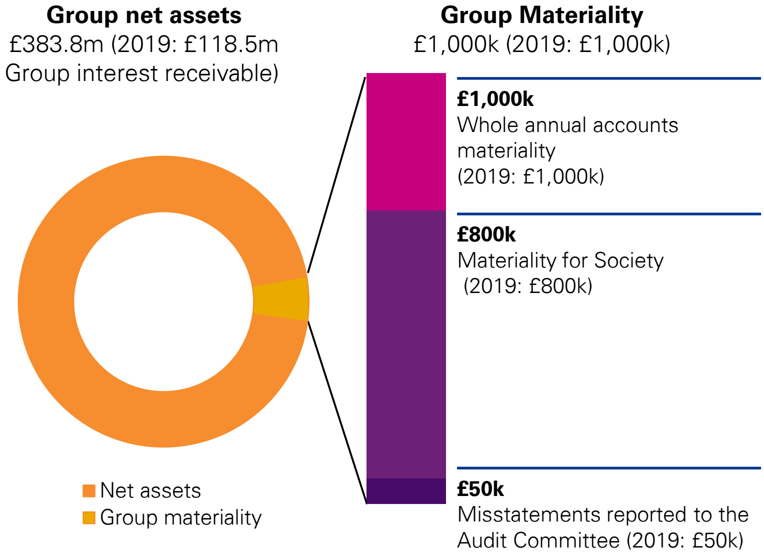
Materiality for the Group annual accounts as a whole was set at £1,000k (2019: £1,000k), determined with reference to a benchmark of Group net assets of £383.8m, of which it represents 0.26% (2019: 0.8% of Group interest receivable).

Materiality for the Society annual accounts as a whole was set at £800k (2019: £800k), determined with reference to a benchmark of Society net assets of £377.9m, of which it represents 0.21% (2019: 0.9% of Society interest receivable normalised to exclude dividend income and impairment of investments in subsidiaries).

The benchmark has changed from the prior year, where interest receivable was used in determining materiality. We considered that, whilst income and profit are relevant financial metrics, the Group and Society, as a mutual entity, is not primarily a profit-focused entity and a measure that better reflects the overall financial position of the Group and Society is more appropriate. As net assets is the figure within the financial statements that most closely reflects regulatory capital, we consider this to be the most appropriate reflection of financial strength and therefore the key metric on which to base materiality. Noting that the Group's profit, relative to its balance sheet size, is lower than peers, we have positioned materiality to the lower end of our benchmark range. As a result, there has been no change in our materiality level compared to that in the prior year for either the Group or Society.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £50k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected all Group entities to full scope audits therefore accounting for a scope in line with the percentages illustrated opposite.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Society or the Group or to cease their operations, and as they have concluded that the Society's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Society will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on this work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Society's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

— the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;

— the information given in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts; and

— the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Building Societies Act 1986, we are required to report to you if, in our opinion

— adequate accounting records have not been kept by the Society; or

— the annual accounts are not in agreement with the accounting records and returns; or

— we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 43 to 45 the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related building society legislation), and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, employment law and certain aspects of building society legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Andrew Walker

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

2nd June 2020

Income Statements

for the year ended 31 March 2020

	Notes	Group 2020 £m	Group 2019 Restated* £m	Society 2020 £m	Society 2019 Restated* £m
Interest receivable and similar income					
Calculated using the effective interest method		**118.6**	118.5	**119.0**	117.1
On instruments measured at fair value through profit or loss		**(4.5)**	(6.9)	**(2.9)**	(5.3)
Total interest receivable and similar income	2	**114.1**	111.6	**116.1**	111.8
Interest expense and similar charges	3	**(55.0)**	(53.1)	**(55.7)**	(53.6)
Net interest receivable		**59.1**	58.5	**60.4**	58.2
Fees and commissions receivable		**2.3**	2.6	**2.8**	3.1
Other operating income	4	**4.0**	4.0	**-**	(0.1)
Fair value losses on financial instruments	5	**(8.5)**	(5.7)	**(4.7)**	(7.7)
Gain on deconsolidation of commercial securitisations	42	**5.3**	-	**-**	-
Write down of goodwill	16	**(0.5)**	-	**-**	-
Total income		**61.7**	59.4	**58.5**	53.5
Administrative expenses	6	**(38.2)**	(42.6)	**(36.1)**	(39.5)
Depreciation and amortisation	16,18	**(8.0)**	(6.9)	**(8.0)**	(6.9)
Operating profit before revaluation gains, impairment and provisions		**15.5**	9.9	**14.4**	7.1
Gains on investment properties	17	**4.2**	2.6	**-**	-
Impairment on loans and advances	14	**(17.5)**	(3.0)	**(1.2)**	(0.1)
Provisions for liabilities	25	**(0.7)**	(0.3)	**(0.5)**	-
Provisions against investments in subsidiary undertakings	15	**-**	-	**(31.4)**	(5.5)
Profit/(Loss) before tax		**1.5**	9.2	**(18.7)**	1.5
Taxation	9	**-**	(1.2)	**0.6**	(0.5)
Profit/(Loss) for the financial year		**1.5**	8.0	**(18.1)**	1.0

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

The notes on pages 79 to 150 form part of these accounts.

*2019 fair value losses on financial instruments and taxation have been restated as explained in note 43.

Statements of Comprehensive Income

for the year ended 31 March 2020

	Notes	Group 2020 £m	Group 2019 Restated* £m
Profit for the financial year		**1.5**	8.0
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation losses taken to equity		**(2.2)**	(1.1)
Taxation	30	**0.4**	0.2
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	31	**(0.7)**	(2.5)
Taxation	30	**0.3**	0.5
Other comprehensive income for the financial year, net of tax		**(2.2)**	(2.9)
Total comprehensive income for the financial year		**(0.7)**	5.1

	Notes	Society 2020 £m	Society 2019 Restated* £m
(Loss)/Profit for the financial year		**(18.1)**	1.0
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation losses taken to equity		**(2.2)**	(1.1)
Taxation	30	**0.4**	0.2
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	31	**(0.7)**	(2.5)
Taxation	30	**0.3**	0.5
Other comprehensive income for the financial year, net of tax		**(2.2)**	(2.9)
Total comprehensive income for the financial year		**(20.3)**	(1.9)

The notes on pages 79 to 150 form part of these accounts.

*2019 profit for the financial year has been restated as explained in note 43.

Statements of Financial Position

at 31 March 2020

	Notes	Group 2020 £m	Group 2019 Restated* £m	Society 2020 £m	Society 2019 Restated* £m
Assets					
Cash and balances with the Bank of England	10	**263.5**	182.5	**263.5**	182.5
Loans and advances to credit institutions		**123.6**	106.7	**78.6**	59.0
Investment securities	11	**285.3**	309.3	**864.7**	934.2
Derivative financial instruments	12	**4.5**	6.5	**4.5**	5.9
Loans and advances to customers	13	**4,691.6**	4,745.4	**3,155.9**	3,095.4
Current tax assets		**0.4**	-	**0.4**	-
Deferred tax assets	19	**20.4**	18.9	**13.0**	10.3
Trade and other receivables	20	**4.1**	3.7	**3.7**	3.6
Investments	15	**-**	-	**1,136.3**	1,215.8
Intangible assets	16	**16.3**	16.5	**16.3**	15.9
Investment properties	17	**138.9**	134.7	**-**	-
Property, plant and equipment	18	**28.2**	28.4	**28.2**	28.4
Total assets		**5,576.8**	5,552.6	**5,565.1**	5,551.0
Liabilities					
Shares	21	**3,846.1**	3,991.2	**3,846.1**	3,991.2
Amounts due to credit institutions		**883.8**	667.3	**858.8**	667.3
Amounts due to other customers	22	**94.6**	77.7	**387.9**	415.6
Derivative financial instruments	12	**54.2**	39.3	**51.6**	35.5
Debt securities in issue	23	**266.3**	344.1	**1.0**	1.0
Current tax liabilities		**-**	0.9	**-**	0.9
Deferred tax liabilities	19	**6.7**	5.8	**1.7**	1.6
Trade and other payables	24	**15.2**	12.1	**14.1**	10.5
Provisions for liabilities	25	**0.6**	1.4	**0.5**	0.9
Retirement benefit obligations	31	**2.7**	4.9	**2.7**	4.9
Subordinated liabilities	28	**22.8**	22.8	**22.8**	22.8
Total liabilities		**5,193.0**	5,167.5	**5,187.2**	5,152.2
Members' interests and equity					
Core capital deferred shares	27	**127.0**	127.0	**127.0**	127.0
Subscribed capital	26	**8.9**	8.9	**8.9**	8.9
General reserves		**246.5**	246.0	**240.6**	259.7
Revaluation reserve		**3.3**	3.3	**3.3**	3.3
Fair value reserve		**(1.9)**	(0.1)	**(1.9)**	(0.1)
Total members' interests and equity		**383.8**	385.1	**377.9**	398.8
Total members' interests, equity and liabilities		**5,576.8**	5,552.6	**5,565.1**	5,551.0

The accounting policies and notes on pages 79 to 150 form part of these accounts.

*2019 loans and advances to customers, current tax liabilities and general reserves have been restated as explained in note 43. There was no impact on the brought forward figures for the year ended 31 March 2019 from the restatement detailed in note 43.

Approved by the Board of Directors on 2 June 2020 and signed on its behalf by:

Mark Nicholls
Chairman

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance & Operations Director

Statements of Changes in Members' Interests and Equity

for the year ended 31 March 2020

Group	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2019	**127.0**	**8.9**	**246.0**	**3.3**	**(0.1)**	**385.1**
Profit for the financial year	-	-	1.5	-	-	**1.5**
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(0.4)	-	-	**(0.4)**
Fair value through other comprehensive income investments	-	-	-	-	(1.8)	**(1.8)**
Total other comprehensive income	**-**	**-**	**(0.4)**	**-**	**(1.8)**	**(2.2)**
Total comprehensive income for the year	**-**	**-**	**1.1**	**-**	**(1.8)**	**(0.7)**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(0.6)**	**-**	**-**	**(0.6)**
At 31 March 2020	**127.0**	**8.9**	**246.5**	**3.3**	**(1.9)**	**383.8**

for the year ended 31 March 2019

Group	Profit participating deferred shares £m	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Fair value reserve £m	Total £m
At 1 April 2018	175.0	-	75.0	215.8	3.4	0.8	-	470.0
Changes on initial application of IFRS 9	-	-	-	(27.8)	-	(0.8)	0.8	(27.8)
At 1 April 2018 including impact of IFRS 9 adoption	175.0	-	75.0	188.0	3.4	-	0.8	442.2
Profit for the financial year (restated)*	-	-	-	8.0	-	-	-	8.0
Other comprehensive income for the year (net of tax)								
Retirement benefit obligations	-	-	-	(2.0)	-	-	-	(2.0)
Realisation of previous revaluation gains	-	-	-	0.1	(0.1)	-	-	-
Fair value through other comprehensive income investments	-	-	-	-	-	-	(0.9)	(0.9)
Total other comprehensive income	-	-	-	(1.9)	(0.1)	-	(0.9)	(2.9)
Total comprehensive income for the year (restated)*	-	-	-	6.1	(0.1)	-	(0.9)	5.1
Capital restructuring	(175.0)	127.0	(66.1)	51.9	-	-	-	(62.2)
At 31 March 2019 (restated)*	-	127.0	8.9	246.0	3.3	-	(0.1)	385.1

Statements of Changes in Members' Interests and Equity

for the year ended 31 March 2020

Society	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2019	**127.0**	**8.9**	**259.7**	**3.3**	**(0.1)**	**398.8**
Loss for the financial year	-	-	(18.1)	-	-	**(18.1)**
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(0.4)	-	-	**(0.4)**
Fair value through other comprehensive income investments	-	-	-	-	(1.8)	**(1.8)**
Total other comprehensive income	**-**	**-**	**(0.4)**	**-**	**(1.8)**	**(2.2)**
Total comprehensive income for the year	**-**	**-**	**(18.5)**	**-**	**(1.8)**	**(20.3)**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(0.6)**	**-**	**-**	**(0.6)**
At 31 March 2020	**127.0**	**8.9**	**240.6**	**3.3**	**(1.9)**	**377.9**

for the year ended 31 March 2019

Society	Profit participating deferred shares £m	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Fair value reserve £m	Total £m
At 1 April 2018 including impact of IFRS 9 adoption	175.0	-	75.0	240.6	3.4	0.8	-	494.8
Changes on initial application of IFRS 9	-	-	-	(31.9)	-	(0.8)	0.8	(31.9)
At 1 April 2018 including impact of IFRS 9 adoption	175.0	-	75.0	208.7	3.4	-	0.8	462.9
Profit for the financial year (restated)*	-	-	-	1.0	-	-	-	1.0
Other comprehensive income for the year (net of tax)								-
Retirement benefit obligations	-	-	-	(2.0)	-	-	-	(2.0)
Realisation of previous revaluation gains	-	-	-	0.1	(0.1)	-	-	-
Fair value through other comprehensive income investments	-	-	-	-	-	-	(0.9)	(0.9)
Total other comprehensive income	-	-	-	(1.9)	(0.1)	-	(0.9)	(2.9)
Total comprehensive income for the year (restated)*	-	-	-	(0.9)	(0.1)	-	(0.9)	(1.9)
Capital restructuring	(175.0)	127.0	(66.1)	51.9	-	-	-	(62.2)
At 31 March 2019 (restated)*	-	127.0	8.9	259.7	3.3	-	(0.1)	398.8

The notes on pages 79 to 150 form part of these accounts.

*2019 profit for the financial year and general reserves have been restated as explained in note 43.

Statements of Cash Flows

for the year ended 31 March 2020

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Net cash inflow/(outflow) from operating activities (below)	**140.3**	30.7	**(5.6)**	(285.5)
Cash flows from investing activities				
Purchase of investment securities	**(121.8)**	(120.1)	**(121.8)**	(120.1)
Proceeds from disposal of investment securities	**124.7**	87.8	**169.3**	179.9
Proceeds from disposal of investment properties	**-**	0.1	**-**	-
Purchase of property, plant and equipment and intangible assets	**(5.6)**	(6.7)	**(5.7)**	(6.7)
Proceeds from disposal of property, plant and equipment	**0.7**	-	**0.7**	-
New funding to subsidiaries	**-**	-	**(42.7)**	(34.1)
Repayment of funding from subsidiaries	**-**	-	**89.3**	132.8
Net cash flows from investing activities	**(2.0)**	(38.9)	**89.1**	151.8
Cash flows from financing activities				
Issue of debt securities	**-**	1.0	**-**	1.0
Repayment of debt securities in issue	**(57.5)**	(149.2)	**-**	-
Capital restructuring	**-**	(36.2)	**-**	(36.2)
Interest paid on subordinated liabilities	**(2.5)**	(1.2)	**(2.5)**	(1.2)
Payment of lease liabilities	**(0.6)**	-	**(0.6)**	-
Distribution to the holders of core capital deferred shares	**(0.6)**	-	**(0.6)**	-
Net cash flows from financing activities	**(61.2)**	(185.6)	**(3.7)**	(36.4)
Net increase/(decrease) in cash	**77.1**	(193.8)	**79.8**	(170.1)
Cash and cash equivalents at beginning of year	**298.7**	492.5	**251.0**	421.1
Cash and cash equivalents at end of year	**375.8**	298.7	**330.8**	251.0

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

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Cash in hand (including Bank of England Reserve account)	**252.2**	172.0	**252.2**	172.0
Loans and advances to credit institutions	**123.6**	106.7	**78.6**	59.0
Investment securities	**-**	20.0	**-**	20.0
	375.8	298.7	**330.8**	251.0

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2020, amounted to £11.3m (2018/19: £10.5m). The movement in these balances is included within cash flows from operating activities.

The Group's loans and advances to credit institutions includes £43.2m (2018/19: £45.7m) of balances belonging to the Society's structured entities which are not available for general use by the Society.

Statements of Cash Flows (continued)

for the year ended 31 March 2020

	Group 2020 £m	Group 2019 Restated* £m	Society 2020 £m	Society 2019 Restated* £m
Cash flows from operating activities				
Profit/(Loss) before tax	**1.5**	9.2	**(18.7)**	1.5
Adjustments for non-cash items included in profit/(loss) before tax				
Impairment on loans and advances	**17.5**	3.0	**1.2**	0.1
Depreciation and amortisation	**8.0**	6.9	**8.0**	6.9
Disposal of property, plant and equipment	**(0.2)**	-	**(0.2)**	-
Revaluations of investment properties	**(4.2)**	(2.6)	**-**	-
Gain on deconsolidation of commercial securitisations	**(5.3)**	-	**-**	-
Write down of goodwill	**0.5**	-	**-**	-
Changes in provisions for liabilities	**(0.8)**	(0.7)	**(0.4)**	(1.1)
Provisions against investments in subsidiary undertakings	**-**	-	**31.4**	5.5
Interest on subordinated liabilities	**2.5**	2.4	**2.5**	2.4
Fair value losses on equity release portfolio	**0.1**	1.7	**0.1**	1.7
Interest paid on lease liabilities	**0.1**	-	**0.1**	-
Changes in fair value	**3.4**	(12.3)	**2.1**	(14.3)
	23.1	7.6	**26.1**	2.7
Changes in operating assets and liabilities				
Loans and advances to customers	**31.3**	31.3	**(64.1)**	(127.4)
Loans and advances to credit institutions	**(2.5)**	(3.9)	**(0.8)**	(3.9)
Derivative financial instruments	**20.2**	13.6	**17.5**	17.6
Shares	**(145.1)**	(59.9)	**(145.1)**	(59.9)
Deposits and other borrowings	**216.8**	42.0	**163.8**	(114.2)
Trade and other receivables	**(0.4)**	2.4	**(0.1)**	2.5
Trade and other payables	**0.9**	0.3	**1.1**	(0.2)
Retirement benefit obligations	**(2.9)**	(2.7)	**(2.9)**	(2.7)
Tax paid	**(1.1)**	-	**(1.1)**	-
Net cash inflow/(outflow) from operating activities	**140.3**	30.7	**(5.6)**	(285.5)

The notes on pages 79 to 150 form part of these accounts.

*2019 profit before tax and loans and advances to customers have been restated as explained in note 43, which have no impact on net cash inflow from operating activities.

Notes to the Accounts

1. Accounting policies

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

Basis of preparation

The Annual Accounts of the Group and the Society have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the European Union (EU) and effective at 31 March 2020; and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 and the Building Societies Act 1986 applicable to societies reporting under IFRS.

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

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

Going concern

The Directors have prepared forecasts for the Group, including its capital position, for a period in excess of 12 months from the date of approval of these financial statements. The Directors have also considered the effect upon the Group's business, financial position, liquidity and capital of more pessimistic, but plausible, trends in its business using stress testing and scenario analysis techniques.

The Society's Medium Term Plan (MTP) has been updated to reflect the uncertainty caused by COVID-19, including the potential impacts on the UK housing and mortgage markets and the wider economy. Through the Internal Capital Adequacy Assessment Process (ICAAP) the Society models the impact of the Bank of England's Annual Cyclical scenario on the Society's Capital position, throughout which a surplus over Total Capital Requirements is maintained. The impact of the Annual Cyclical scenario is more severe than that anticipated in the current COVID-19 pandemic. Through the Society's Internal Liquidity Adequacy Process (ILAAP) the Society models the impacts of severe but plausible liquidity stresses throughout which a surplus over minimum regulatory levels of liquidity is maintained. Scenarios tested showed that the Society would be able to continue as a Going Concern throughout the period under assessment, after taking account of the actions available to management to mitigate the impacts on capital and liquidity in such scenarios. Additional actions undertaken by government to support the economy would improve the position further. The resultant forecasts and projections therefore show that the Group will be able to operate at adequate levels of both liquidity and capital for the next 12 months.

The Directors, therefore, consider that the Society and Group have adequate resources to continue in operational existence for the next 12 months. Accordingly they continue to adopt the going concern basis in preparing the financial statements. For further details see page 44 of the Directors' Report.

New or amended accounting standards

- IFRS 16 'Leases'
  IFRS 16 'Leases' was adopted by the Group from 1 April 2019 and replaces IAS 17 'Leases'. The standard amends the definition of a lease and sets out the principles for the recognition, measurement, presentation and disclosure of leases. As permitted by the new standard, the Group has implemented IFRS 16 using the 'modified retrospective' approach and recognised the cumulative impact of transition as an adjustment to 'general reserves' in the Statement of Financial Position at 1 April 2019. Therefore, the comparative information has not been restated and is presented, as previously reported, under IAS 17 and related interpretations. The impact of IFRS 16 on the financial statements is disclosed further in this note and in note 41.

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
  In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

  The amendments are relevant to the Group given that it hedges and applies hedge accounting to its benchmark interest rate exposure. The application of the amendments impact the Group accounting in the following ways:

  - The Group has fixed rate advances in the form of retail mortgage lending to customers which it includes in a portfolio fair value hedge subject to changes in GBP LIBOR and GBP SONIA. The amendments permit continuation of hedge accounting even if in the future the benchmark interest rates, GBP LIBOR and GBP SONIA, may no longer be separately identifiable.

  - The Group holds derivatives to hedge individual fixed rate commercial mortgages using pay fixed, receive floating GBP LIBOR interest rate swaps.

  The Group has chosen to early apply these amendments, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms. Further detail is provided in note 12 (d). There have been no changes to the Group's reported results in 2019/20 as a result of adopting these amendments.

- IFRIC 23 'Uncertainty of Income Tax Treatments'
  These interpretations clarify application of the recognition and measurement in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments.

Future accounting developments

The following new or amended accounting standards and interpretations have been issued but are not effective for the twelve months ended 31 March 2020. The Group is monitoring developments around IFRS 17.

- IFRS 17 'Insurance Contracts'
  IFRS 17 replaces IFRS 4 'Insurance Contracts' and is effective for annual periods beginning on or after 1 January 2021. The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and to ensure that an entity provides relevant information that faithfully represents those contracts.

Basis of consolidation

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

Subsidiaries

Subsidiaries are all entities controlled by the Society. Under IFRS 10 'Consolidated Financial Statements' control is achieved where the Group has the power to govern the financial and operating policies of an entity, has the exposure or rights to the variable returns from the involvement with the entity, and is able to use its power to affect the amount of returns for the Group. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the results from the date that control commences until the date that control ceases.

1. Accounting policies (continued)

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

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

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

Securitisation transactions
The Group has entered into securitisation transactions in which it sells mortgages to structured entities. In accordance with IFRS 9 (and previously under IAS 39), the Group continues to recognise securitised assets as loans and advances to customers. In subsequent periods, income from the securitised mortgages is recognised by the Group.

The equity of the structured entities created for these securitisations is not owned by the Group. However, to comply with IFRS 10 'Consolidated Financial Statements', the structured entities are included as subsidiaries in the consolidated financial statements, where certain criteria are met. The analysis of whether the criteria are met is subject to regular reassessment. Where IFRS 10 consolidation criteria are no longer met, securitised mortgage assets continue to be recognised with an offsetting deemed loan liability recorded in the Group financial statements. Deemed loans are included within amounts due to other customers.

The Society has entered into securitisation transactions in which it sold residential mortgages to structured entities. In accordance with IFRS 9 (and previously under IAS 39), the Society continues to recognise the securitised assets as loans and advances to customers and consequently also shows a deemed loan liability to the structured entities. The deemed loans are included within amounts due to other customers.

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

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

Information regarding the results of each reportable segment is included in note 38.

Interest receivable and expense
Interest receivable and expense are recognised in the Income Statement for all instruments measured at amortised cost or fair value through other comprehensive income using the effective interest method. Interest income on defaulted loans categorised as 'stage 3' under IFRS 9 is recognised by applying the effective interest rate to the balances net of the provisions for expected credit losses.

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

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

Investment properties
Investment properties are properties held for long-term rental yields and capital appreciation. Investment properties are carried in the Statement of Financial Position at fair value, representing open market value determined annually and subject to review by independent specialist valuers. Changes in fair values are recorded in the Income Statement in accordance with IAS 40 (revised 2003). Leasehold properties held for long-term rental yields are classified as investment properties and carried at fair value.

Financial instruments

a) Financial assets
Under IFRS 9, financial assets are classified as amortised cost or fair value (through other comprehensive income or through profit or loss), based on the business model under which they are held and the characteristics of their contractual cash flows.

Amortised cost
Financial assets are measured at amortised cost if they are held for the purpose of collecting contractual cash flows ("held to collect" business model) and have contractual terms which give rise on specified dates to cash flows which are solely payments of principal and interest (SPPI) on the outstanding amount.

This category includes cash and balances with the Bank of England, loans and advances to credit institutions and the majority of the Group's loans and advances to customers. All of the Group's mortgage portfolios were originated or purchased for the purposes of collecting contractual cash flows. With the exception of the closed equity release portfolio, the contractual terms of the Group's mortgage books indicate that the cash flows to be collected comprise capital and interest on the outstanding balance.

For the Society, loans to subsidiary undertakings and holdings of certain investment securities issued by Group entities are also measured at amortised cost based on the business model and SPPI assessments. In the case of mortgage-backed securities, the SPPI criteria are only met where the underlying asset pools contain mortgages which are SPPI and the exposure to credit risk inherent in the tranches held by the Society is equal to or lower than the exposure to credit risk of the underlying mortgage pools.

Assets measured at amortised cost are initially recognised at fair value, being the cash consideration to originate or purchase the asset including any directly attributable transaction costs, and subsequently measured using the effective interest method.

Fair value through other comprehensive income (FVOCI)
Financial assets are classified as FVOCI where the associated business model objective is achieved by both collecting contractual cash flows and selling the assets ("held to collect and sell" business model). The contractual terms of FVOCI assets give rise on specified dates to cash flows which are solely payments of principal and interest on the outstanding balance.

This category comprises the Group's portfolio of investment securities held in order to meet current and future liquidity requirements and which have been assessed by the Group to be in a "held to collect and sell" business model. Consistent with the criteria for FVOCI, the Group collects contractual cash flows which, without exception, meet the IFRS 9 SPPI definition and periodically sells a proportion of the portfolio to evidence the liquidity of the investment assets. In the case of mortgage-backed securities, the SPPI criteria are only met where the underlying asset pools contain mortgages which are SPPI and the exposure to credit risk inherent in the tranches held by the Society is equal to or lower than the exposure to credit risk of the underlying mortgage pools.

FVOCI assets are initially recognised at fair value, which is the cash consideration including any directly attributable transaction costs, and measured subsequently at fair value. Gains and losses from changes in fair value are recorded in other comprehensive income via the fair value reserve, except for impairment losses which are recognised in the Income Statement. Gains or losses arising on sale, including any cumulative gains and losses previously recognised in other comprehensive income, are recognised in the Income Statement. Interest is calculated using the effective interest method.

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

Fair value through profit or loss (FVTPL)
Financial assets which do not meet the classification criteria to be held at amortised cost or FVOCI are measured at FVTPL.

This category includes derivative assets and the closed equity release portfolio (presented within loans and advances to customers). An assessment of the contractual terms of the equity release loans concluded that the SPPI criteria, which must be satisfied to carry an asset at amortised cost or FVOCI, were not met. In the Society's Statement of Financial Position, certain investment securities issued by Group structured entities are measured at FVTPL.

The fair values of derivatives are based on level 2 valuation techniques, as described in section (f) below. Changes in the fair value of derivative assets are presented within fair value gains/(losses) on financial instruments in the Income Statement offset, where the derivatives are hedging instruments in a qualifying IAS 39 fair value hedge relationship, by the fair value movements on the corresponding hedged items. Interest arising on derivative financial instruments is recognised within net interest on an accruals basis.

Due to the bespoke nature of equity release books, relevant market pricing data is not available. The fair value of the equity release portfolio is therefore determined using an internal discounted cash flow model which estimates the amount and timing of future cash flows arising on redemption and discounts these at assumed market rates to calculate the fair value of the mortgages. Model inputs are informed by a combination of the Society's historic experience (e.g. redemption rates) and economic forecast data (e.g. house price inflation indices). Under IFRS 13 'Fair Value Measurement' and Amendments to IFRS 7 'Financial Instruments: Disclosures' the fair value measurement of equity release mortgages is categorised as level 3.

An entity may, at initial recognition or on adoption of IFRS 9, make an irrevocable designation to measure a financial asset at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise if the asset were to be held at amortised cost or FVOCI. The Group and Society have not designated any financial assets as FVTPL on adoption of IFRS 9 or subsequently.

b) Financial liabilities
In accordance with IFRS 9, all of the Group and Society's financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss.

Amortised cost
This category includes shares, amounts due to credit institutions, amounts due to other customers, debt securities in issue and subordinated liabilities.

Liabilities subsequently measured at amortised cost are recognised initially at fair value, being the issue proceeds, net of premia, discounts and directly attributable transaction costs incurred. They are subsequently measured at amortised cost using the effective interest method.

Fair value through profit or loss (FVTPL)
This category includes derivative liabilities for which changes in fair value are presented within fair value gains/(losses) on financial instruments in the Income Statement offset, where the derivatives are hedging instruments in a qualifying IAS 39 fair value hedge relationship, by the fair value movements on the corresponding hedged items. Interest arising on derivative financial instruments is recognised within net interest on an accruals basis.

The fair values of derivative liabilities are determined in accordance with the three tier valuation hierarchy as defined within IFRS 13 'Fair Value Measurement' and in section (f) below.

An entity may, at initial recognition or on adoption of IFRS 9, make an irrevocable designation to measure a financial liability (that would otherwise be held at amortised cost) at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency. The Group and Society have not designated any financial liabilities as FVTPL on adoption of IFRS 9 or subsequently.

c) Impairment of financial assets

Impairment of financial assets
Expected credit losses (ECLs) are recognised for all financial assets carried at amortised cost or FVOCI under IFRS 9, and also for undrawn loan commitments where a mortgage offer has been made but the loan is yet to be advanced and recognised in the Statement of Financial Position.

COVID-19 was declared a pandemic and UK government support measures only came into play towards the end of the Group's financial year. Nevertheless this required an update of certain assumptions used in the Group's ECL calculation as follows:

- the Group has revised its macroeconomic scenarios and revisited the probability weightings assigned to each scenario to reflect a more pessimistic outlook.

1. Accounting policies (continued)

- certain assumptions relating to expected cashflows and exit yields on the commercial loan portfolio have been revisited, with particular focus on those sectors considered most at-risk.
- overlays have been created in respect of residential lending to reflect the impact of support measures that have since been made available to borrowers, including payment holidays

This has resulted in an additional impairment charge of £14.7m at 31 March 2020. The economic outlook remains uncertain and the revisions to assumptions reflect management's best estimates with the information available at the time.

Staging
At each reporting date, financial assets subject to the impairment requirements of IFRS 9 are categorised into one of three stages:

Stage 1
On initial recognition, financial assets which are not credit impaired are categorised as stage 1 and provision is made for 12 month ECLs, being the losses from default events expected to occur within the next 12 months. Assets remain in stage 1 until such time as they meet the criteria for another stage or are derecognised.

Stage 2 (significant increase in credit risk)
Financial assets which are not in default, but have experienced a significant increase in credit risk since initial recognition, are categorised as stage 2. The loss allowance recognised is equivalent to lifetime ECL, being the loss arising from default events expected to occur over the lifetime of the financial asset.

Determining whether a significant increase in credit risk has occurred is a critical aspect of the IFRS 9 methodology and one which involves judgement, based on a combination of quantitative and qualitative measures. As described in the ECL calculation sections which follow, the criteria applied vary across portfolios depending on the nature of the portfolio and availability of relevant credit risk information but all include the IFRS 9 'backstop' of 30 days past due as a stage 2 trigger. The UK government's fiscal and monetary policies created in the response to the COVID-19 pandemic include the requirement for lenders to offer payment holidays to assist borrowers who may struggle to meet their regular payments.

Stage 3 (default)
Defaulted or credit-impaired financial assets are categorised as stage 3, requiring recognition of lifetime ECLs.

Transfers to lower stages (curing)
Financial assets in stages 2 or 3 can transfer back to stages 1 or 2, respectively, once the criteria for significant increase in credit risk or default cease to be met for a period of time defined within the ECL methodology for that portfolio, sometimes known as the 'cure' period. In practice, this means that a stage 2 or 3 loan which ceases to breach the threshold(s)/criteria for that stage will remain in the higher stage for a pre-determined number of months. The use of cure periods gives assurance that accounts have rehabilitated before re-entering lower stages and reduces the level of volatility that might otherwise arise from accounts regularly migrating between stages.

Forward-looking ECL approach
ECL is measured as the present value of the difference between the cash flows contractually due on a financial asset or undrawn commitment and the cash flows expected to be received. In the Statement of Financial Position, the loss allowance is presented as a reduction in the carrying value of the financial asset. In the case of an undrawn loan commitment, the impairment provision is instead presented within provisions for liabilities.

For each of the Group and Society's financial asset portfolios in the scope of IFRS 9 impairment, the estimate of ECL is unbiased and weighted to take into account a range of possible outcomes.

In accordance with IFRS 9, forecasts of future economic conditions are integral to the ECL calculations for each portfolio. The Group currently models four forward-looking macroeconomic scenarios: a central forecast with economic assumptions aligned to the Society's Medium Term Plan (and therefore assigned the highest weighting), together with upside, downside and stress scenarios. The scenarios have been updated with due regard to the latest market data available following the emergence of the COVID-19 pandemic. A more pessimistic view has been taken when developing the forecasts this year, combined with reduced weightings assigned to the central scenario, offset by a higher weighting assigned to the severe low rate scenario.

ECL calculation – core residential mortgages
For the core residential mortgage books, the impairment model employs industry-accepted statistical techniques to address the complex requirements of IFRS 9, with model assumptions and parameters initially determined by regression analysis of historical default data. The assumptions are validated using 'out of time' samples, across a range of economic scenarios, enabling the predictive capabilities of the models to be confirmed.

The model incorporates quantitative factors for identifying a significant increase in credit risk by comparing reporting date lifetime probability of default (PD) with residual origination lifetime PD. For the purposes of this quantitative staging assessment, mortgages are segmented by lending type (owner occupied or buy to let). Residual origination PD curves and (relative and absolute) threshold levels are established via an iterative process involving statistical analysis of the Group's default data. In addition, a range of internally monitored potential impairment indicators has been selected as qualitative criteria for classifying an individual loan as stage 2. Examples of qualitative indicators include cancelled direct debit instructions, certain forbearance measures and evidence of impaired credit history obtained from external agencies.

The default criteria for core residential loans are entirely aligned with those used for capital and credit risk management purposes. Loans are considered to be in default or credit-impaired if they are in arrears by three or more months, in litigation, possession or LPA receivership, or meet one of a range of internal 'unlikely to pay' indicators.

Within the core residential model ECL is calculated by multiplying the forward-looking (PD), exposure at default (EAD) and loss given default (LGD). The model outputs monthly ECLs, which are aggregated over the first 12 months to obtain 12-month ECL and over the life of the loan to calculate lifetime ECL.

The model combines a number of account-specific variables and forecasts of future economic conditions within the calculation of PD. Macroeconomic variable inputs to the model are reviewed quarterly and include house price index (HPI), interest rates, unemployment and GDP. The variables were selected based on statistical tests and other analysis which evidenced their correlation with credit risk.

The core residential impairment model aligns the Group's capital and accounting approaches to the estimation of credit losses as closely as possible.

ECL calculation – undrawn commitments
The loss allowance for undrawn commitments is inferred from the core residential mortgage impairment model outputs for existing loans with similar risk characteristics.

All undrawn commitments are currently allocated to stage 1 such that a 12-month ECL calculation is appropriate.

The Group's IFRS 9 provision requirements for undrawn commitments at 31 March 2019 and 31 March 2020 were negligible.

ECL calculation – second charge residential mortgages
For the closed second charge loan book, a significant increase in credit risk is assessed using external credit agency PD indicators. Absolute thresholds have been set based on analysis of monthly PD scores from origination (or earliest available date) to point of default.

Second charge mortgages are considered to be in default if they are in arrears by three or more months or in bankruptcy, litigation or possession.

Impairment provisions for the closed second charge mortgage book are determined using a simple discounted cash flow model which segregates accounts by payment status. Estimated future cash flows, which consider the forced sale property valuation and level of first charge debt remaining, are discounted to their present value using the effective interest rate of the loan and compared with the account balance at the reporting date. This estimated loss on possession is multiplied by the probability of possession occurring to calculate the ECL requirement.

The key macroeconomic variable affecting the level of second charge impairment losses is HPI, as forecast within the Group's central, upside, downside and stress scenarios.

ECL calculation – commercial mortgages
The key indicator of a significant increase in credit risk for a commercial loan is a downward migration in internal credit rating, determined via an established internal credit risk assessment process. The internal grade is determined at an individual account level, combining expert judgement with prescriptive measures including, but not limited to, loan to value and income/debt service coverage ratios.

Commercial loans are categorised as default if an LPA Receiver (or equivalent) has been appointed, if they are in arrears by greater than or equal to three months, and/or are past scheduled maturity (unless past maturity by no more than 3 months and active negotiations to extend are in progress with the customer). Loans not meeting these criteria may be classified as stage 3 based on expert management judgment of the perceived risk of non-payment.

The ECL requirements for commercial mortgages are assessed on an individual loan basis, with the right to off-setting ECL requirements where cross-collateralisation exists between connected commercial mortgages, using cash flow scenario modelling. This involves estimating the timing and amount of future cash flows, in the event of default, for one or more probability weighted account-specific scenarios based on the Group's central forecast of economic conditions. Applying the Group's macroeconomic scenarios effectively creates a range of alternative outcomes in addition to the central forecast.

Estimated future cash flows, comprising rental receipts and final sales proceeds (each net of costs), are discounted at the effective interest rate of the loan and compared with its carrying value to determine the ECL under each combination of account-specific and macroeconomic scenarios. The relevant macroeconomic weightings are then applied to calculate the overall provision requirement at the reporting date.

ECL calculation – liquid assets
For liquid assets, comprising cash and balances with the Bank of England, loans and advances to credit institutions and investment securities, a significant increase in credit risk is determined by counterparty type and adverse movements in counterparty credit rating beyond specified thresholds. None of the Group's liquid assets are categorised as stage 2 at the reporting date.

Liquid assets are in default if categorised as such by external credit rating agencies. The Group has never experienced an impairment loss or default on its Treasury investment portfolio.

The ECL calculation for liquid assets multiplies the carrying value of the asset by a PD applicable to its credit rating at the reporting date. The PD is obtained from publically available external credit rating agency data tables. The macroeconomic weighted scenarios are translated to shifts in counterparty credit ratings thereby changing the PDs applied in the calculation.

The Group's liquid asset provision requirements at 31 March 2019 and 31 March 2020 were negligible.

ECL calculation – investments in subsidiary undertakings
Investments in subsidiary undertakings comprise (minimal) share capital and intercompany loans. Intercompany loans are financial assets of the Society which are measured at amortised cost and therefore subject to the impairment requirements of IFRS 9.

For lending companies, the impairment provision requirement is determined by assessing the recoverability of the amount owed to the Society in comparison to the net assets of the subsidiary.

For West Bromwich Homes Limited, the IFRS 9 provision requirement is assessed by comparing the present value of future cash flows arising on the investment property portfolio with the amount owed to the Society. Cash flows are discounted at the effective interest rate of the intercompany loan. The key macroeconomic variable affecting the calculation is HPI, as forecast within the Group's central, upside, downside and stress scenarios. The assessment has concluded that no impairment provision is required at the reporting date.

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

d) Derecognition of financial assets and liabilities
The Group's policy is to derecognise financial assets when the contractual right to the cash flows from the financial asset expires. The Group also derecognises financial assets that it transfers to another party provided the transfer of the asset also transfers the right to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

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

e) Modification of contractual cash flows
The Group may, in certain circumstances, renegotiate or otherwise modify the contractual cash flows of loans and advances to customers. If qualitative and quantitative assessments conclude that the new cash flows are substantially different to the original cash flows, the original loan is derecognised and a new financial asset recognised in the Statement of Financial Position. If the modified cash flows are not substantially different, a modification gain or loss is recognised in profit or loss, calculated by adjusting the loan's gross carrying amount to the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.

1. Accounting policies (continued)

Where contractual terms are modified due to financial difficulties of the borrower (forbearance), the modification gain or loss is included within impairment on loans and advances; otherwise it is presented within interest receivable.

For residential mortgages, a change of product at the end of a fixed rate deal period is not considered to be a modification to the contract but instead a repricing to market interest rates which was envisaged at the start of the customer relationship.

f) Determination of fair value

The Group determines fair values by the three tier valuation hierarchy as defined within IFRS 13 'Fair Value Measurement' and Amendments to IFRS 7 'Financial Instruments: Disclosures'.

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

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

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

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

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

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

g) Sale and repurchase agreements

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

h) Derivative financial instruments and hedge accounting

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

In accordance with its Treasury and Financial Risk Management Policy and the Building Societies Act 1986, the Group does not hold or issue derivative financial instruments for trading purposes.

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

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

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

ii) Derivatives that do not qualify for hedge accounting – Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

i) Offsetting

Offsetting financial assets and financial liabilities are offset and the net amount presented within the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. There are no financial assets or liabilities which are offset within the Statement of Financial Position and all financial assets and liabilities are presented on a gross basis. Income and expenses are presented on a net basis only when permitted under IFRS.

Equity instruments

Equity instruments, comprising core capital deferred shares (CCDS), subscribed capital and, in previous years, profit participating deferred shares (PPDS) are financial instruments issued which do not give rise to a contractual obligation to deliver cash or another financial asset to the holder. Where such an obligation exists, the instrument is classified as a financial liability.

The proceeds of issuing equity instruments are recognised within equity, net of directly attributable costs and tax.

Distributions to holders of equity instruments are recognised directly in equity as a deduction from general reserves.

Intangible assets

Goodwill

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

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

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

Computer software

Computer software which is not an integral part of the related hardware is recorded as an intangible asset. The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Intangible assets are held at amortised cost; amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of 3 to 10 years. Intangible assets are subject to regular impairment reviews. Costs associated with maintaining software are recognised as an expense when incurred.

Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, except specialised administration buildings, is stated at valuation less depreciation. Specialised administration buildings and plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All gains on the revaluation of property are recognised in the revaluation reserve when they arise. Freehold land is revalued every 3 to 5 years by an independent firm of valuers.

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

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

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

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

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

Leases

The Group adopted IFRS 16 'Leases' from 1 April 2019.

When the Group enters into a contract which conveys the right to control the use of an identified asset for a period of time in excess of 12 months in exchange for consideration, it recognises a right-of-use (ROU) asset and a corresponding lease liability in the Statement of Financial Position. The majority of the Group's leases relate to its branch property network.

The lease liability is measured at the present value of the remaining lease payments at the commencement date, discounted using the Group's incremental borrowing rate. The lease term incorporates lease extension or termination options where they are reasonably certain to be exercised. The incremental borrowing rate is determined with reference to the market pricing of securities with similar risk characteristics and terms to the leased assets at the commencement date. The carrying value of the lease liability is adjusted for interest charged and repayments. The lease liability is remeasured for changes in future lease payments, the lease term or the Group's assessment of whether it will exercise a lease extension or termination option. Any remeasurement results in a corresponding adjustment to the ROU asset. Interest is charged on the lease liability at the Group's incremental borrowing rate and recorded in interest expense and similar charges within the Income Statement.

The ROU asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for remeasurement of the corresponding lease liability. The initial measurement of the ROU asset includes the lease liability, initial direct costs, lease payments made prior to the commencement date and lease incentives received. It is subsequently depreciated using the straight line method over the shorter of the asset's estimated useful life and the period to the end of the lease term. ROU assets are subject to an annual impairment assessment.

1. Accounting policies (continued)

As permitted by IFRS 16, the Group does not recognise a ROU asset or lease liability for leases of low value or with lease terms of less than 12 months. For these leases, payments are recognised on a straight line basis over the lease term and disclosed within administrative expenses in the Income Statement.

The Group has elected to separate its lease components and non-lease components for its property leases (e.g. service charges).

In the Statement of Cash Flows, payments of lease liabilities are categorised as cash flows from financing activities.

IFRS 16 adoption has not impacted the reporting of lease arrangements where the Group acts as lessor, with lessor accounting being substantially unchanged from that prescribed by IAS 17. Where the Group acts as a lessor, these leases are treated as operating leases.

On adoption of IFRS 16, the Group made judgements in relation to the exercise of termination and extension options in order to calculate lease terms. Determining the incremental borrowing rate used to discount the future lease payments involved a degree of estimation uncertainty. However, these judgements and estimates are not deemed critical, as they do not materially impact the financial statements.

Further information on the adoption of IFRS 16 can be found in note 41.

Accounting policy for the year ended 31 March 2019

Leases

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

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

Cash and cash equivalents

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

Taxation

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

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

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

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

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

Provisions and contingent liabilities

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

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

Employee benefits

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

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by the revised standard (IAS 19), actuarial gains and losses are recognised outside profit or loss in other comprehensive income, as an increase or decrease in general reserves.

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

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

Critical accounting estimates and judgements in applying accounting policies

In the process of applying accounting policies, the Group makes various judgements, estimates and assumptions which affect the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements in applying accounting policies

Classification and measurement of financial assets

Significant judgements made in applying IFRS 9 accounting policies (other than those involving estimations) include the business model and contractual cash flow assessments which determine the measurement basis for financial assets in the scope of IFRS 9. These assessments are not limited to one factor but involve a detailed review of relevant evidence including asset management strategy, performance reporting and contractual documentation such as mortgage terms and conditions. For investment securities, past sales activity and, where relevant (e.g. holdings of mortgage backed securities), the contractual cash flow characteristics of underlying asset pools have been assessed in arriving at the FVOCI classification.

Impairment

For IFRS 9 impairment, judgement is required to define the staging criteria, i.e. what constitutes a significant increase in credit risk (stage 2) and what circumstances give rise to a default (stage 3). Where assets meet the stage 2 or 3 criteria, lifetime ECL must be recognised.

In accordance with IFRS 9, forecasts of future macroeconomic conditions are integral to the impairment modelling processes. The selection of economic variables which are genuine drivers of credit risk and adequately capture the impact of changes in the economic outlook involves a degree of judgement. The impacts of the COVID-19 pandemic on impairment judgements are detailed in the Financial Instruments accounting policy on pages 80 to 84. In particular this has impacted the choice and weighting of macroeconomic scenarios below.

The staging methodologies and macroeconomic scenario selection processes for each portfolio are detailed within the financial assets (impairment) accounting policy in this note. Model monitoring and model validation procedures are used to continually evaluate the appropriateness of the staging criteria and macroeconomic variable inputs.

Securitisation transactions

In order to determine whether the Group controls a structured entity or not, the Group has to make judgements about risks and rewards and assess the ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. When assessing whether the Group has to consolidate a structured entity it evaluates a range of factors following the rules and guidance of IFRS 10 'Consolidated Financial Statements'.

Where the Group has concluded that it does, in substance, control the entity to which financial assets have been transferred, the structured entity is included in these financial statements and the transferred assets are recognised in the Group's Statement of Financial Position. Where the securitised assets were originated by the Society they continue to be recognised in the Society's Statement of Financial Position. Note 42 details the changes to the classification of certain structured entities made during the year, the result of which is that these entities are no longer consolidated into the Group.

Sources of estimation uncertainty

Impairment on loans and advances – forward- looking ECL approach

The estimation of ECLs is inherently uncertain and the IFRS 9 impairment models incorporate a number of assumptions and estimates, changes in which could materially affect the carrying amounts of assets and liabilities within the next financial year. The IFRS 9 requirements to incorporate forward-looking information within the ECL calculation, including forecasts of future macroeconomic conditions, necessitate judgement thereby increasing the potential for volatility in future periods.

The Group's impairment models incorporate four macroeconomic forecasts (central, upside, downside and stress), each comprising a number of economic variables considered to be credit risk drivers. In light of the COVID-19 pandemic all scenarios have been updated to reflect economic uncertainty and weightings have increased for more pessimistic scenarios in comparison to the previous year end.

Impairment on loans and advances - residential mortgages (core and second charge)

The following table indicates the main economic variables included within the IFRS 9 macroeconomic scenarios at 31 March 2020 and the associated weightings.

			Current scenario (%)		
	Probability weighting		2020/21	2021/22	2022/23
Central scenario	50%	Bank Rate	0.1	0.3	0.3
		HPI	(4.0)	4.0	3.4
		Unemployment	6.0	4.5	3.7
		GDP	(5.0)	3.5	3.5
Upside scenario	5%	Bank Rate	0.3	0.8	1.0
		HPI	2.9	3.8	4.6
		Unemployment	4.1	3.6	3.1
		GDP	(5.0)	6.0	6.0
Downside scenario	30%	Bank Rate	0.1	0.1	0.1
		HPI	(6.0)	-	1.0
		Unemployment	10.0	6.0	3.7
		GDP	(15.0)	-	6.0
Stress scenario	15%	Bank Rate	0.1	-	-
		HPI	(15.0)	(5.0)	-
		Unemployment	12.0	8.0	6.0
		GDP	(15.0)	(5.0)	-

1. Accounting policies (continued)

Key assumptions for the residential portfolios are the weightings of the macroeconomic forecasts, which each incorporate a different outlook for the economic variables shown in the table above, the forecast of future house price inflation and the relative threshold used to identify a significant increase in credit risk. The sensitivity of the residential provision calculations to the key assumptions is as follows:

Assumption	Change to current assumption	Increase/(Decrease) in impairment provision 2020 £m
Central scenario weighting	Increase weighting from 50% to 100%	**(1.0)**
Upside scenario weighting	Increase weighting by 10% (with a corresponding reduction to the central scenario)	**(0.2)**
Downside scenario weighting	Increase weighting by 10% (with a corresponding reduction to the central scenario)	**0.2**
Stress scenario weighting	Increase weighting by 10% (with a corresponding reduction to the central scenario)	**0.4**
HPI growth	Increase of 5.0%	**(0.4)**
HPI growth	Decrease of 5.0%	**0.4**
Quantitative threshold for identifying a significant increase in credit risk	Relative decrease of 35%	**0.7**

Impairment on loans and advances - commercial mortgages
Consistent with residential mortgages, the IFRS 9 ECL calculation for the commercial portfolio incorporates central, upside, downside and stress economic scenarios with probability weightings of 50%, 5%, 30% and 15% respectively.

In addition to the scenario weightings and account-specific factors that impact cashflows, the key model assumption for commercial provisioning is considered to be the exit yield requirement, which is used to estimate the cash flows arising from realisation of the property values on sale. While interest rates also have a significant impact on the ECL, via the discount factor applied in the model, compensating economic hedge arrangements would substantially offset the movement in profit or loss terms. Compared with the central economic forecast, the exit yield requirement for each loan increases by 0.9% and 2.0% in the downside and stress scenarios respectively and reduced by 0.2% in the upside scenario. This compares to an average exit yield of 8%.

The table below illustrates the sensitivity of the commercial ECL calculation to the central scenario weighting and exit yield requirement.

Assumption	Change to current assumption	Increase/(Decrease) in impairment provision 2020 £m
Central scenario weighting	Increase weighting from 50% to 100%	**(12.4)**
Upside scenario weighting	Increase weighting by 10% (with a corresponding reduction to the central scenario)	**(0.2)**
Downside scenario weighting	Increase weighting by 10% (with a corresponding reduction to the central scenario)	**2.0**
Stress scenario weighting	Increase weighting by 10% (with a corresponding reduction to the central scenario)	**4.4**
Exit yield requirement	Increase of 0.5% across all scenarios	**4.8**

Fair value of equity release mortgages
Under IFRS 9, the mature and closed book of equity release mortgages is held at FVTPL with fair values determined using a discounted cash flow model which incorporates a number of judgemental assumptions to determine the amount and timing of future cash flows arising on mortgage redemption. Certain model inputs, such as redemption rates, are informed by historic experience, with observed closure curves extrapolated to give an expected maturity profile for the remaining book. Other model assumptions, such as house price indices, are based on the Group's view of future economic conditions. The discount factor used to calculate the present value of the future cash flows has been determined with due regard to credit, market and liquidity risk.

Key sensitivities are in relation to HPI, discount rate and time to redemption as shown in the table below.

Assumption	Change to current assumption	Increase in fair value loss 2020 £m
HPI growth	Increase of 5.0%	**(0.5)**
HPI growth	Decrease of 5.0%	**0.5**
Discount rate	Increase of 0.25%	**0.2**
Time to redemption	Increase of 1 year	**0.2**

Effective interest rate
The calculation of an effective interest rate requires the Group to make assumptions around the expected lives of mortgages. Management regularly reviews these assumptions and compares with actual results.

If the average lives of the mortgages were to increase by 5%, the carrying value of mortgages would increase by £3.7m with a corresponding increase in interest income.

Investment properties
Independent specialist valuers have undertaken a valuation review of the portfolio of residential investment properties on an open market value for existing use basis, calculated on the net income allowing for reversionary potential. In making the judgment, consideration has been given to assumptions that are mainly based on market conditions existing at the Statement of Financial Position date. In line with RICS guidance the independent valuer has highlighted the current material valuation uncertainty owing to the impacts of the COVID-19 pandemic. Therefore whilst the valuation is supported as at 31 March 2020, given the unknown future impact that COVID-19 might have on the real estate market, less certainty should be attached to the valuation than would normally be the case. These estimates are regularly compared to actual market data and actual transactions entered into by the Group. The calculation of the fair value of investment properties involves house price assumptions which are regularly reviewed by management.

If house prices were to change by 5%, the carrying value of the investment properties would change by £6.9m with a corresponding change to income.

Pensions
The Group operates a defined benefit pension scheme. The year-end valuation of the scheme assets and liabilities relies on estimates of future interest, inflation and mortality rates informed by external advice from the scheme actuaries. The main assumptions used in the valuation, together with sensitivity analysis of the impact of movements in key variables, are outlined in note 31 to the Accounts.

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

Management has made detailed forecasts of future taxable income in order to determine that profits will be available to offset the deferred tax asset. These projections are based on business plans, future capital requirements and the current economic situation. They include assumptions about the depth and severity of potential further house price depreciation and about the UK economy, including unemployment levels and their related impact on credit losses.

The assumptions surrounding future ECLs and increases in the Bank Rate of interest represent the most subjective areas of judgement in management's projections of future taxable profits. Management's forecasts support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax assets and it is on this basis that the deferred tax assets have been recognised. Deferred tax has been recognised at 19%, being the rates substantively enacted at the date of the Statement of Financial Position and expected to apply when the deferred tax assets are realised.

2. Interest receivable and similar income

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
On financial assets not at fair value through profit or loss:				
Loans fully secured on residential property	**101.8**	101.2	**74.1**	72.6
Other loans				
Connected undertakings	**-**	-	**31.0**	32.1
Loans fully secured on land	**11.3**	12.7	**1.3**	1.0
Investment securities	**3.6**	3.0	**10.9**	10.0
Other liquid assets	**1.9**	1.6	**1.7**	1.4
On financial assets at fair value through profit or loss:				
Loans fully secured on residential property	**1.0**	1.0	**1.0**	1.0
Investment securities	**-**	-	**-**	0.3
Net expense on derivative financial instruments	**(5.5)**	(7.9)	**(3.9)**	(6.6)
Total interest receivable and similar income	**114.1**	111.6	**116.1**	111.8
Interest receivable includes:				
Income from fixed income securities	**0.1**	0.5	**0.1**	0.5

During the year ended 31 March 2020, the total interest receivable and similar income calculated using the effective interest method was: Group £115.0m (2018/19: £115.5m) and Society £115.4m (2018/19: £114.1m) for financial assets held at amortised cost, and Group £3.6m (2018/19: £3.0m) and Society £3.6m (2018/19: £3.0m) for financial assets held at fair value through other comprehensive income.

Included within interest receivable and similar income is interest accrued on impaired residential mortgage assets: Group £1.5m (2018/19: £1.7m) and Society £0.6m (2018/19: £0.7m) and interest accrued on impaired commercial mortgage assets: Group £5.3m (2018/19: £4.7m) and Society £nil (2018/19: £nil). For the purposes of this disclosure, impaired mortgage assets are those which have been categorised as stage 3 under IFRS 9.

3. Interest expense and similar charges

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
On financial liabilities not at fair value through profit or loss:				
Shares held by individuals	**39.7**	37.0	**39.8**	37.0
Deposits from banks and other deposits	**6.8**	7.9	**5.0**	7.8
Debt securities in issue	**5.4**	6.7	**-**	-
Subordinated liabilities	**2.5**	2.4	**2.5**	2.4
Deemed loans	**-**	-	**7.8**	7.3
Lease liabilities	**0.1**	-	**0.1**	-
On financial liabilities at fair value through profit or loss:				
Net income on derivative financial instruments	**0.5**	(0.9)	**0.5**	(0.9)
Total interest expense and similar charges	**55.0**	53.1	**55.7**	53.6

4. Other operating income

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Other operating income includes:				
Rent receivable on investment property	6.9	6.7	-	-
Operating expenses on investment property	(2.9)	(2.6)	-	-
Pension fund net interest (note 31)	(0.1)	(0.1)	(0.1)	(0.1)
Other	0.1	-	0.1	-
Total other operating income	4.0	4.0	-	(0.1)

5. Fair value losses on financial instruments

	Group 2020 £m	Group* 2019 £m	Society 2020 £m	Society* 2019 £m
Fair value hedges				
Derivatives designated as fair value hedges	(12.0)	(10.7)	(14.0)	(12.3)
Adjustments to hedged items in fair value hedge relationships	8.7	9.4	10.8	12.3
Fair value losses on hedge accounting	(3.3)	(1.3)	(3.2)	-
Other derivatives	(5.0)	(2.7)	(2.0)	(6.2)
Financial instruments mandatorily at fair value through profit or loss	(0.2)	(1.7)	0.5	(1.5)
Total fair value losses on financial instruments	(8.5)	(5.7)	(4.7)	(7.7)

*2019 fair value losses on financial instruments have been restated as explained in note 43.

6. Administrative expenses

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Staff costs				
Wages and salaries	21.8	23.5	21.4	23.0
Social security costs	2.0	2.4	1.9	2.3
Other pension costs	1.8	2.1	1.8	2.1
Rental charges payable under operating leases	-	0.5	-	0.5
Other administrative expenses	12.6	14.1	11.0	11.6
	38.2	42.6	36.1	39.5
Other administrative expenses include:				
Remuneration of auditor (excluding VAT element)				
Audit of these financial statements	0.3	0.2	0.3	0.2
Audit of the subsidiary financial statements	0.1	0.1	-	-

Wages and salaries include £0.7m (2018/19: £0.6m) redundancy costs paid as part of the restructuring and rationalisation undertaken during the year.

Other assurance services provided by the external auditor comprise £10,500 (2018/19: £5,200) in respect of audit-related assurance services and £47,300 (2018/19: £22,900) in respect of other assurance services, in each case excluding VAT.

7. Employee numbers

	Group and Society 2020	Group and Society 2019
The average number of employees employed throughout the year was:		
Full time	**489**	551
Part time	**188**	169
	677	720
Building Society		
Central administration (Society and subsidiaries)	**476**	515
Branches	**201**	205
	677	720

All employees were employed within the United Kingdom.

8. Directors' emoluments

Total Directors' emoluments including expenses amounted to £1.677m (2018/19: £1.716m). Full details are given in the Directors' Remuneration Report on pages 53 to 61.

9. Taxation

	Group 2020 £m	Group* 2019 £m	Society 2020 £m	Society* 2019 £m
UK corporation tax at 19% (2018/19: 19%)	**0.6**	(2.5)	**2.0**	(2.5)
Corporation tax - adjustment in respect of prior years	**(0.1)**	-	**(0.1)**	-
Total current tax	**0.5**	(2.5)	**1.9**	(2.5)
Deferred tax				
Current year	**0.7**	4.6	**(1.7)**	3.4
Adjustment in respect of prior periods	**0.3**	(0.3)	**0.1**	0.1
Effect of changes in tax rates	**(1.5)**	(0.6)	**(0.9)**	(0.5)
Tax on profit/(loss) on ordinary activities	**-**	1.2	**(0.6)**	0.5

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

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

	Group 2020 £m	Group* 2019 £m	Society 2020 £m	Society* 2019 £m
Profit/(loss) before tax	**1.5**	9.2	**(18.7)**	1.5
Profit/(loss) before tax multiplied by the UK standard rate of tax of 19% (2018/19: 19%)	**0.3**	1.8	**(3.6)**	0.3
Effects of:				
Income not taxable and expenses not deductible for tax purposes	**0.3**	(0.1)	**6.0**	1.3
Changes to tax rate	**(1.5)**	(0.6)	**(0.9)**	(0.5)
Adjustment in respect of prior years	**0.2**	(0.3)	**-**	0.1
Transfer pricing adjustments	**-**	-	**(1.1)**	(1.2)
Deconsolidation adjustments	**(1.1)**	-	**-**	-
Write down/(utilisation and recognition) of deferred tax assets	**2.0**	0.5	**(1.0)**	0.5
Revaluation	**(0.2)**	(0.1)	**-**	-
Tax charge/(credit)	**-**	1.2	**(0.6)**	0.5

*2019 taxation has been restated as explained in note 43.

10. Cash and balances with the Bank of England

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Cash in hand	**2.7**	3.2	**2.7**	3.2
Cash ratio deposit with the Bank of England	**11.3**	10.5	**11.3**	10.5
Other deposits with the Bank of England	**249.5**	168.8	**249.5**	168.8
	263.5	182.5	**263.5**	182.5

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

11. Investment securities

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Listed transferable investment securities:				
Fair value through other comprehensive income	**284.3**	309.3	**284.3**	309.3
Amortised cost	**-**	-	**579.4**	623.7
Fair value through profit or loss	**1.0**	-	**1.0**	1.2
Total investment securities	**285.3**	309.3	**864.7**	934.2

The movement in investment securities is summarised as follows:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
At beginning of year	**309.3**	311.9	**934.2**	1,029.4
Changes on initial application of IFRS 9	**-**	-	**-**	(0.8)
At beginning of year including impact of IFRS 9 adoption	**309.3**	311.9	**934.2**	1,028.6
Treated as cash and cash equivalents:				
Additions	**46.0**	35.0	**46.0**	35.0
Disposals (sale and redemption)	**(66.1)**	(68.8)	**(66.1)**	(68.8)
Investment securities with maturities > 3 months at date of acquisition:				
Recognised on deconsolidation of commercial securitisations	**1.2**	-	**-**	-
Additions	**121.8**	120.1	**121.8**	120.1
Disposals (sale and redemption)	**(124.7)**	(87.8)	**(169.3)**	(179.9)
Losses from changes in fair value	**(2.2)**	(1.1)	**(1.9)**	(0.8)
At end of year	**285.3**	309.3	**864.7**	934.2

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

12. Derivative financial instruments and hedge accounting

(a) Use of derivative financial instruments for interest rate risk management purposes

The Group is exposed to the risk that movements in interest rates change the value of, or income arising from, its assets and liabilities. This type of market risk is known as interest rate risk.

The Group has an integrated approach to interest rate risk management, taking advantage of natural hedges which exist within the Group Statement of Financial Position and using derivatives where no such natural hedges exist. Derivatives are financial instruments whose value is derived from one or more underlying price, rate or index (such as interest rates, exchange rates or stock market indices) but have a smaller or no initial net investment relative to financial assets/liabilities offering the same risk/return, as cash flows are generally settled at a future date.

The derivatives currently held by the Group comprise interest rate swaps with highly rated counterparties. Counterparty credit risk is mitigated by the posting of collateral and the use of central clearing counterparties. In accordance with the Building Societies Act 1986, derivatives are solely used for risk mitigation and never for trading purposes. From an accounting perspective, where the IAS 39 criteria are met, the derivatives are designated as hedging instruments in fair value hedge relationships and hedge accounting is adopted. Otherwise, the derivatives are held as economic hedges and valued at fair value through profit or loss. The accounting policies for derivatives and hedge accounting are described in note 1 to the accounts. 2019 fair value losses on financial instruments have been restated as explained in note 43.

The following table describes the significant activities undertaken by the Group, the associated risks, the type of derivatives typically used in managing such risks and related hedge relationships.

Activity	Risk	Derivative type	Hedge relationship	Hedge accounting
Fixed rate mortgage lending	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Fair value hedge	Yes
Fixed rate investment securities	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Fair value hedge	Yes
Fixed rate savings products	Sensitivity to changes in interest rates	Receive fixed pay floating interest rate swaps	Fair value hedge	Yes
Variable rate debt securities in issue	Sensitivity to fluctuations in interest rates between quarterly reset dates	Pay floating receive floating interest rate swaps	Economic hedge	No
Commercial mortgage loss provisions	Sensitivity to changes in interest rates	Pay fixed receive floating interest rate swaps	Economic hedge	No

These arrangements have been established solely for the mitigation of interest rate risk. Other risks, such as credit risk, are separately managed but not hedged. The interest rate risk component of the hedge relationship is ascertained with reference to the benchmark rate of interest being hedged.

(b) Derivative financial instruments in the Statement of Financial Position

The following tables show the notional and carrying amounts of derivative financial instruments at the year-end date.

		Carrying value in the Statement of Financial Position	
Group	**Notional amount 2020 £m**	**Assets 2020 £m**	**Liabilities 2020 £m**
Interest rate swaps			
Designated as fair value hedges	**1,752.9**	**-**	**(41.3)**
Economic hedges	**1,668.4**	**4.5**	**(12.9)**
Total derivatives held for hedging purposes	**3,421.3**	**4.5**	**(54.2)**

		Carrying value in the Statement of Financial Position	
Group	Notional amount 2019 £m	Assets 2019 £m	Liabilities 2019 £m
Interest rate swaps			
Designated as fair value hedges	1,691.6	4.3	(33.8)
Economic hedges	1,440.0	2.2	(5.5)
Total derivatives held for hedging purposes	3,131.6	6.5	(39.3)

Society	Notional amount 2020 £m	Carrying value in the Statement of Financial Position Assets 2020 £m	Liabilities 2020 £m
Interest rate swaps			
Designated as fair value hedges	**1,752.9**	**-**	**(41.3)**
Economic hedges	**1,277.5**	**4.5**	**(10.3)**
Total derivatives held for hedging purposes	**3,030.4**	**4.5**	**(51.6)**

Society	Notional amount 2019 £m	Carrying value in the Statement of Financial Position Assets 2019 £m	Liabilities 2019 £m
Interest rate swaps			
Designated as fair value hedges	1,684.2	4.3	(31.3)
Economic hedges	1,102.1	1.6	(4.2)
Total derivatives held for hedging purposes	2,786.3	5.9	(35.5)

(c) Hedge accounting

(i) Fair value hedges
Hedges of the fair value of recognised assets or liabilities are termed 'fair value hedges'. Under hedge accounting rules, changes in the fair value of derivatives (hedging instruments) are offset against changes in the fair value of hedged assets or liabilities (hedged items) in the Income Statement. The hedging ratio is the ratio of the notional value of the derivatives to the principal of the assets or liabilities being hedged.

(ii) Hedge effectiveness
For a fair value hedge of interest rate risk, hedge effectiveness is determined by comparing changes in the fair value of the derivative with changes in the fair value of the hedged asset or liability attributable to changes in interest rates.

The primary sources of ineffectiveness for the Society's fair value hedge relationships are:

- Differences in the timing of cash flows between the interest rate swaps and the hedged mortgages or savings products.
- Differences between actual and expected prepayment profiles of the hedged items.
- Differences between the contractual maturity dates of the derivatives and the hedged items.
- Differences in the benchmark rates of interest used to calculate the fair value of the derivatives and hedged items.

(iii) Portfolio hedges
The Society designates fair value hedge relationships in which derivative financial instruments hedge a portfolio of fixed rate mortgages or savings products, reducing the Income Statement volatility that would otherwise arise from the derivatives being measured at fair value through profit or loss and the related hedged items at amortised cost.

The Society's hedging approach is dynamic, as the mortgage portfolios are constantly changing due to new advances, contractual repayments and early redemptions. To manage the interest rate risk inherent within fixed rate mortgage lending, the Society frequently enters into and closes interest rate swap arrangements. It assesses hedging ratios and hedge effectiveness on a quarterly basis.

(iv) Derivatives not in a designated hedge relationship
In cases where the Group holds derivatives for hedging purposes, but the prescriptive IAS 39 criteria for application of hedge accounting are not met, the derivatives are held at fair value through profit or loss. Changes in the fair value of these derivatives are included within 'Fair value losses on financial instruments' on the Income Statement. Depending on the nature of the economic hedging relationship, offsetting movements are reported either within the same line or another line of the Income Statement.

12. Derivative financial instruments and hedge accounting (continued)

The following tables analyse the notional value and average fixed rate of interest rate swaps in designated hedge relationships by contractual maturity date.

At 31 March 2020

Group and Society	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Fair value hedge of fixed rate residential loans				
Interest rate swap notional (£m)	154.0	207.5	1,266.3	9.7
Average fixed rate	0.64%	0.92%	0.55%	0.84%
Fair value hedge of fixed rate investment securities				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Fair value hedge of fixed rate savings products				
Interest rate swap notional (£m)	-	-	-	-
Average fixed rate	-	-	-	-
Group				
Fair value hedge of fixed rate commercial loans				
Interest rate swap notional (£m)	10.3	-	31.4	73.7
Average fixed rate	2.88%	-	5.05%	4.84%
Society				
Fair value hedge of intercompany loans*				
Interest rate swap notional (£m)	10.3	-	31.4	73.7
Average fixed rate	2.88%	-	5.05%	4.84%

At 31 March 2019

Group and Society	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years
Fair value hedge of fixed rate residential loans				
Interest rate swap notional (£m)	42.5	186.1	1,295.3	22.4
Average fixed rate	1.96%	0.64%	0.90%	0.92%
Fair value hedge of fixed rate investment securities				
Interest rate swap notional (£m)	-	3.0	-	-
Average fixed rate	-	1.18%	-	-
Fair value hedge of fixed rate savings products				
Interest rate swap notional (£m)	-	16.0	-	-
Average fixed rate	-	1.88%	-	-
Group				
Fair value hedge of fixed rate commercial loans				
Interest rate swap notional (£m)	-	-	41.7	84.6
Average fixed rate	-	-	4.62%	4.87%
Society				
Fair value hedge of intercompany loans*				
Interest rate swap notional (£m)	-	-	41.7	77.2
Average fixed rate	-	-	4.62%	4.84%

*The Society holds interest rate swaps to mitigate interest rate risk on commercial mortgages originated by its subsidiary West Bromwich Commercial Limited (WBCL). At Group level the derivatives and commercial mortgages are in designated IAS 39 hedge relationships. In the Society's individual financial statements, the interest rate swaps are held in a hedge relationship against intercompany loans with equivalent terms to the third party commercial mortgages.

The impact of hedge accounting on the Group and Society Income Statement and Statement of Financial Position (SOFP) is indicated in the tables which follow.

Hedging instruments at 31 March 2020

Interest rate swaps Group and Society	Notional amount £m	Carrying value in the SOFP Assets £m	Carrying value in the SOFP Liabilities £m	SOFP line	Change in fair value used for recognising ineffectiveness £m	Ineffectivess charge/(credit) in the Income Statement £m	Income Statement line
Fair value hedge of fixed rate residential loans	1,637.5	-	(16.4)	Derivative financial instruments	(15.1)	2.4	Fair value losses on financial instruments
Fair value hedge of fixed rate investment securities	-	-	-	Derivative financial instruments	-	-	Fair value losses on financial instruments
Fair value hedge of fixed rate savings products	-	-	-	Derivative financial instruments	(0.1)	0.1	Fair value losses on financial instruments
Group							
Fair value hedge of fixed rate commercial loans	115.4	-	(24.9)	Derivative financial instruments	3.2	0.8	Fair value losses on financial instruments
Society							
Fair value hedge of intercompany loans*	115.4	-	(24.9)	Derivative financial instruments	1.2	0.7	Fair value losses on financial instruments

Hedging instruments at 31 March 2019

Interest rate swaps Group and Society	Notional amount £m	Carrying value in the SOFP Assets £m	Carrying value in the SOFP Liabilities £m	SOFP line	Change in fair value used for recognising ineffectiveness £m	Ineffectivess charge/(credit) in the Income Statement £m	Income Statement line
Fair value hedge of fixed rate residential loans	1,546.3	4.1	(5.1)	Derivative financial instruments	(14.1)	1.6	Fair value losses on financial instruments
Fair value hedge of fixed rate investment securities	3.0	-	-	Derivative financial instruments	-	-	Fair value losses on financial instruments
Fair value hedge of fixed rate savings products	16.0	0.2	-	Derivative financial instruments	(0.3)	-	Fair value losses on financial instruments
Group							
Fair value hedge of fixed rate commercial loans	126.3	-	(28.7)	Derivative financial instruments	3.7	(0.3)	Fair value losses on financial instruments
Society							
Fair value hedge of intercompany loans*	118.9	-	(26.1)	Derivative financial instruments	2.1	(0.3)	Fair value losses on financial instruments

Hedged items at 31 March 2020

Hedged assets and liabilities Group and Society	Carrying value in the SOFP £m	Accumulated fair value adjustments £m	SOFP line	Change in fair value used for recognising ineffectiveness £m
Fixed rate residential loans	1,551.8	14.7	Loans and advances to customers	12.7
Fixed rate investment securities	-	-	Investment securities	-
Fixed rate savings products	-	-	Shares	-
Group				
Fixed rate commercial loans	135.5	26.0	Loans and advances to customers	(4.0)
Society				
Intercompany loans*	135.5	26.0	Loans and advances to customers	(1.9)

12. Derivative financial instruments and hedge accounting (continued)

Hedged items at 31 March 2019

Hedged assets and liabilities Group and Society	Carrying value in the SOFP £m	Accumulated fair value adjustments £m	SOFP line	Change in fair value used for recognising ineffectiveness £m
Fixed rate residential loans (restated)**	1,430.8	(0.8)	Loans and advances to customers (restated)*	12.5
Fixed rate investment securities	3.2	-	Investment securities	-
Fixed rate savings products	(13.6)	-	Shares	0.3
Group				
Fixed rate commercial loans	146.2	30.0	Loans and advances to customers	(3.4)
Society				
Intercompany loans*	138.7	27.9	Loans and advances to customers	(1.8)

*The Society holds interest rate swaps to mitigate interest rate risk on commercial mortgages originated by its subsidiary West Bromwich Commercial Limited (WBCL). At Group level the derivatives and commercial mortgages are in designated IAS 39 hedge relationships. In the Society's individual financial statements, the interest rate swaps are held in a hedge relationship against intercompany loans with equivalent terms to the third party commercial mortgages.

**2019 fixed rate residential loans and loans and advances to customers have been restated as explained in note 43.

(d) IBOR reform

The Group is exposed to LIBOR, which is subject to interest rate benchmark reform. Note 1 contains details on the hedged items affected by these reforms.

The Group is closely monitoring the market and the output from the various industry working groups managing the transition from LIBOR to SONIA. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) regarding the transition away from LIBOR). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has set up an IBOR transition programme. The aim of the programme is to understand IBOR exposures within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates.

Certain of the Group's current GBP LIBOR linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate, although the majority do not.

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall back clauses were made available at the end of 2019 and the Group will begin discussion with its banks with the aim to implement this language into its ISDA agreements in early 2020 for derivatives in both the banking and trading book.

The Group has £4.1m of LIBOR linked floating rate mortgages all of which are acquired mortgages. The Group intends to treat customers fairly during the transition of these mortgages away from IBOR such that there is no customer detriment at the point of transfer and that customers are kept informed about the impact of IBOR reforms on their contracts.

Details of the hedging instruments and hedged items affected by the IBOR reform are shown overleaf. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge Type	Instrument type	Maturing in	Nominal £m	Hedged item
Fair value hedge of fixed rate residential loans	Receive 3-month GBP LIBOR, pay sterling fixed interest rate swaps	2020	189.5	Fixed rate financial assets
		2021	239.1	
		2022	435.2	
		2023	26.7	
		2024	-	
		2025+	9.6	
Fair value hedge of fixed rate commercial loans	Receive 3-month GBP LIBOR, pay sterling fixed interest rate swaps	2020	50.3	Fixed rate financial assets
		2021	13.7	
		2022	30.6	
		2023	63.0	
		2024	67.1	
		2025+	117.8	
Total			**1,242.6**	

13. Loans and advances to customers

	Group 2020 £m	Group 2019 Restated* £m	**Society 2020 £m**	Society 2019 Restated* £m
Amortised cost				
Loans fully secured on residential property	**4,354.5**	4,383.2	**3,114.9**	3,066.5
Loans fully secured on land	**373.3**	394.9	**15.1**	12.2
	4,727.8	4,778.1	**3,130.0**	3,078.7
At fair value through profit or loss				
Loans fully secured on residential property	**13.3**	14.8	**13.3**	14.8
Loans fully secured on land	**-**	-	**-**	-
	4,741.1	4,792.9	**3,143.3**	3,093.5
Fair value adjustment for hedged risk	**39.3**	29.2	**15.0**	3.1
Less: impairment provisions	**(88.8)**	(76.7)	**(2.4)**	(1.2)
	4,691.6	4,745.4	**3,155.9**	3,095.4

*2019 loans and advances to customers have been restated as explained in note 43.

Included within loans and advances to customers are £417.2m (2018/19: £444.3m) of commercial lending balances of which £22.7m (2018/19: £32.4m) have been sold by the Group to bankruptcy remote structured entities. A further £931.3m (2018/19: £930.4m) of residential mortgage balances, included within loans and advances, have also been sold by the Group to structured entities. The structured entities have been funded by issuing mortgage backed securities (MBSs), a proportion of which are held by the Society at a carrying value of £580.4m (2018/19: £624.9m).

14. Allowance for losses on loans and advances

Group	Group Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m	Society Loans fully secured on residential property £m
At 1 April 2019	6.0	70.7	**76.7**	**1.2**
Amounts written off	(1.9)	(7.3)	**(9.2)**	**-**
Charge for the year comprising:				
Provision for loan impairment	3.5	19.0	**22.5**	**1.6**
Change in carrying value of deemed loan	-	(3.8)	**(3.8)**	**-**
Adjustments to provisions resulting from recoveries	(0.6)	(0.6)	**(1.2)**	**(0.4)**
Charge for the year	2.9	14.6	**17.5**	**1.2**
Non-recourse finance on securitised advances	-	3.8	**3.8**	**-**
At 31 March 2020	**7.0**	**81.8**	**88.8**	**2.4**

Group	Group Loans fully secured on residential property £m	Loans fully secured on land £m	Total £m	Society Loans fully secured on residential property £m
At 1 April 2018	7.8	74.4	82.2	1.5
Amounts written off	(3.0)	(7.2)	(10.2)	(0.4)
Charge for the year comprising:				
Provision for loan impairment	2.0	3.6	5.6	0.6
Change in carrying value of debt securities in issue	-	(1.7)	(1.7)	-
Adjustments to provisions resulting from recoveries	(0.8)	(0.1)	(0.9)	(0.5)
Charge for the year	1.2	1.8	3.0	0.1
Non-recourse finance on securitised advances	-	1.7	1.7	-
At 31 March 2019	6.0	70.7	76.7	1.2

During the year there were impairment charges of £3.8m (2018/19: £1.7m) against loans in structured entities, Sandwell Commercial Finance No.1 Plc: £0.2m credit (2018/19: £0.3m credit) and Sandwell Commercial Finance No. 2 Plc: £4.0m charge (2018/19: £2.0m charge). The gains or losses from these impairments are borne by the external loan note holders as they exceed the first loss exposure held by the Group. Impairment provisions at the end of the year include £8.0m (2018/19: £6.1m) against loans in structured entity, Sandwell Commercial Finance No. 2 Plc. The carrying value of the deemed loan has been adjusted by an equivalent amount.

15. Investments

Society	Shares in subsidiary undertakings 2020 £m	 2019 £m	Loans to subsidiary undertakings 2020 £m	 2019 £m	Total 2020 £m	 2019 £m
Cost						
At beginning of year	**0.6**	0.6	**1,343.7**	1,442.4	**1,344.3**	1,443.0
Decrease for the year	**-**	-	**(48.1)**	(98.7)	**(48.1)**	(98.7)
At end of year	**0.6**	0.6	**1,295.6**	1,343.7	**1,296.2**	1,344.3
Provisions						
At beginning of year	**-**	-	**128.5**	92.4	**128.5**	92.4
Changes on initial application of IFRS 9	**-**	-	**-**	30.6	**-**	30.6
At beginning of year including impact of IFRS 9 adoption	**-**	-	**128.5**	123.0	**128.5**	123.0
Charge for the year	**0.5**	-	**30.9**	5.5	**31.4**	5.5
At end of year	**0.5**	-	**159.4**	128.5	**159.9**	128.5
Net book value at end of year	**0.1**	0.6	**1,136.2**	1,215.2	**1,136.3**	1,215.8

The value of the Society's investment in West Bromwich Commercial Limited has been assessed by comparison of the amount owed to the Society against the net assets of the subsidiary. Following continued contraction of the commercial mortgage book and the additional losses recognised within West Bromwich Commercial Limited, it has been necessary to write down the value of the investment by £30.9m (2018/19: £5.5m) in the Society's Income Statement, with £nil (2018/19: £30.6m) recognised in equity.

The Society's impairment in its subsidiary undertaking, Insignia Finance Limited was £0.5m.

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

Name	Major activities	Class of shares held	Interest of Society
West Bromwich Mortgage Company Limited	Residential mortgage lending	Ordinary £1 shares	100%
West Bromwich Commercial Limited	Commercial mortgage lending	Ordinary £1 shares	100%
CL Mortgages Limited (1)	Residential mortgage lending	Ordinary £1 shares	100%
West Bromwich Homes Limited	Investment in property for rental	Ordinary £1 shares	100%
Insignia Finance Limited	Holding company	Ordinary £500 shares	100%
White Label Lending Limited (2)	Second charge lending	Ordinary £1 shares	100%

(1) The entire share capital of CL Mortgages Limited is held by West Bromwich Mortgage Company Limited.

(2) The entire share capital of White Label Lending Limited is held by Insignia Finance Limited.

The registered office of the subsidiary undertakings listed above is the Group's registered office as detailed in note 38.

Securitisation entities

The results of the following securitisation entities are consolidated into the results of the Group under the rules and guidance of IFRS 10:

Name	Country of incorporation	Principal activity
Sandwell Finance Holdings Limited (3)	United Kingdom	Holding company
Sandwell Commercial Finance No. 1 Plc (3)	United Kingdom	Securitisation entity
Sandwell Commercial Finance No. 2 Plc (3)	United Kingdom	Securitisation entity
Hawthorn Asset Co Limited	United Kingdom	Securitisation entity
Hawthorn Finance Limited	Jersey	Securitisation entity
Kenrick No. 2 Holdings Limited (4)	United Kingdom	Holding company
Kenrick No. 2 Plc (5)	United Kingdom	Securitisation entity
Kenrick No. 3 Holdings Limited	United Kingdom	Holding company
Kenrick No. 3 Plc	United Kingdom	Securitisation entity
Kenrick No.4 Holdings Limited (6)	United Kingdom	Holding company
Kenrick No.4 Plc (7)	United Kingdom	Securitisation entity
West Bromwich Funding Limited (8)	United Kingdom	Funding vehicle

(3) Sandwell Finance Holdings Limited, Sandwell Commercial Finance No. 1 Plc and Sandwell Commercial Finance No. 2 Plc were de-consolidated from the Group at 31 December 2019.

Further details are disclosed in note 42.

(4) Kenrick No. 2 Holdings Limited was dissolved on 2 April 2019.

(5) Kenrick No. 2 Plc was dissolved on 10 April 2019.

(6) Kenrick No.4 Holdings Limited was incorporated on 15 November 2018.

(7) Kenrick No.4 Plc was incorporated on 15 November 2018.

(8) West Bromwich Funding Limited was incorporated on 28 March 2019.

Sandwell Finance Holdings Limited did not trade during the year and is exempt from the requirement to have its accounts for the year ended 31 March 2020 audited under Section 480 of the Companies Act 2006.

The registered office of Sandwell Finance Holdings Limited, Sandwell Commercial Finance No.1 Plc, Sandwell Commercial Finance No. 2 Plc and Hawthorn Asset Co Limited is Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

The registered office of Hawthorn Finance Limited is 26 New Street, St. Helier, Jersey, JE2 3RA.

The registered office of Kenrick No. 3 Plc, Kenrick No. 3 Holdings Limited, Kenrick No.4 Plc, Kenrick No.4 Holdings Limited and West Bromwich Funding Limited is 11th Floor 200 Aldersgate Street, London, EC1A 4HD.

15. Investments (continued)

Kenrick No.4 Plc and Kenrick No.4 Holdings Limited did not trade during the year and were both dormant.

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

16. Intangible assets

Group	Goodwill 2020 £m	Purchased software 2020 £m	Development costs 2020 £m	Total 2020 £m	Goodwill 2019 £m	Purchased software 2019 £m	Development costs 2019 £m	Total 2019 £m
Cost								
At beginning of year	0.5	15.4	21.7	37.6	0.5	14.3	19.2	34.0
Additions	-	1.9	3.2	5.1	-	1.1	4.0	5.1
Disposals	-	-	-	-	-	-	(1.5)	(1.5)
At end of year	0.5	17.3	24.9	42.7	0.5	15.4	21.7	37.6
Aggregate amortisation								
At beginning of year	-	10.4	10.7	21.1	-	8.3	10.4	18.7
Charge for the year	0.5	2.1	2.7	5.3	-	2.1	1.8	3.9
Disposals	-	-	-	-	-	-	(1.5)	(1.5)
At end of year	0.5	12.5	13.4	26.4	-	10.4	10.7	21.1
Net book value at end of year	-	4.8	11.5	16.3	0.5	5.0	11.0	16.5
Net book value at beginning of year	0.5	5.0	11.0	16.5	0.5	6.0	8.8	15.3

Goodwill of £0.5m was written down to £nil following a review of the assets useful life. The goodwill originated from the initial acquisition of its subsidiary, Insignia Finance Limited.

Society	Goodwill 2020 £m	Computer software 2020 £m	Development costs 2020 £m	Total 2020 £m	Goodwill 2019 £m	Computer software 2019 £m	Development costs 2019 £m	Total 2019 £m
Cost								
At beginning of year	-	15.4	21.6	37.0	-	14.3	19.1	33.4
Additions	-	1.9	3.3	5.2	-	1.1	4.0	5.1
Disposals	-	-	-	-	-	-	(1.5)	(1.5)
At end of year	-	17.3	24.9	42.2	-	15.4	21.6	37.0
Aggregate amortisation								
At beginning of year	-	10.4	10.7	21.1	-	8.3	10.4	18.7
Charge for the year	-	2.1	2.7	4.8	-	2.1	1.8	3.9
Disposals	-	-	-	-	-	-	(1.5)	(1.5)
At end of year	-	12.5	13.4	25.9	-	10.4	10.7	21.1
Net book value at end of year	-	4.8	11.5	16.3	-	5.0	10.9	15.9
Net book value at beginning of year	-	5.0	10.9	15.9	-	6.0	8.7	14.7

17. Investment properties

	Group 2020 £m	Group 2019 £m
Valuation		
At beginning of year	**134.7**	132.2
Disposals	**-**	(0.1)
Revaluation gains	**4.2**	2.6
At end of year	**138.9**	134.7

The Group applies the fair value model to its investment property portfolio.

Independent specialist valuers have undertaken a valuation review of the residential investment properties held by West Bromwich Homes Limited. The complete portfolio has been passed through an automated valuation model (AVM). A separate firm of independent valuers have valued a 10% sample of the portfolio using drive by methods. The valuations have been used, in combination with the AVM output, to arrive at a portfolio valuation of £138.9m at 31 March 2020. In line with RICS guidance the independent valuer has highlighted the current material valuation uncertainty owing to the impacts of the COVID-19 pandemic, close to, and subsequent to the year end.

This fair value measurement is categorised as a Level 3 fair value measurement, based on an assessment of the inputs to the valuation methodology.

If the investment properties were carried at cost, the carrying amount would be £84.4m (2018/19: £84.4m).

The Group leases investment properties to non-commercial individuals for a contract period of up to 36 months. The future minimum lease receipts under non-cancellable operating leases that end within 12 months are £2.5m (2018/19: £2.9m), and an additional £1.7m up to 36 months. The Group has not recognised any contingent rent in the period (2018/19: £nil).

18. Property, plant and equipment

Group	Land and buildings: Freehold branches and non-specialised buildings £m	Land and buildings: Specialised administration buildings £m	Land and buildings: Held for sale £m	Land and buildings: Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost or valuation							
At 1 April 2019	4.9	21.2	0.5	1.0	24.3	-	**51.9**
Recognition of leases upon adoption of IFRS 16*	-	-	-	-	-	2.6	**2.6**
At 1 April 2019 including impact of IFRS 16 adoption	4.9	21.2	0.5	1.0	24.3	2.6	**54.5**
Additions	-	-	-	0.2	0.2	0.5	**0.9**
Transfers	-	-	-	-	-	-	**-**
Disposals	-	-	(0.5)	-	(5.0)	-	**(5.5)**
At 31 March 2020	**4.9**	**21.2**	**-**	**1.2**	**19.5**	**3.1**	**49.9**
Accumulated depreciation							
At 1 April 2019	0.2	2.7	-	0.6	20.0	-	**23.5**
Charge for the year	0.1	1.0	-	0.1	1.6	0.4	**3.2**
Disposals	-	-	-	-	(5.0)	-	**(5.0)**
At 31 March 2020	**0.3**	**3.7**	**-**	**0.7**	**16.6**	**0.4**	**21.7**
Net book value							
At 31 March 2020	**4.6**	**17.5**	**-**	**0.5**	**2.9**	**2.7**	**28.2**

Group	Land and buildings: Freehold branches and non-specialised buildings £m	Land and buildings: Specialised administration buildings £m	Land and buildings: Held for sale £m	Land and buildings: Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost or valuation							
At 1 April 2018	5.4	21.2	-	1.0	23.4	-	51.0
Additions	-	-	-	-	1.2	-	1.2
Transfers	(0.5)	-	0.5	-	-	-	-
Disposals	-	-	-	-	(0.3)	-	(0.3)
At 31 March 2019	4.9	21.2	0.5	1.0	24.3	-	51.9
Accumulated depreciation							
At 1 April 2018	0.1	1.7	-	0.6	18.4	-	20.8
Charge for the year	0.1	1.0	-	-	1.9	-	3.0
Disposals	-	-	-	-	(0.3)	-	(0.3)
At 31 March 2019	0.2	2.7	-	0.6	20.0	-	23.5
Net book value							
At 31 March 2019	4.7	18.5	0.5	0.4	4.3	-	28.4

Society	Land and buildings: Freehold branches and non-specialised buildings £m	Land and buildings: Specialised administration buildings £m	Land and buildings: Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost or valuation							
At 1 April 2019	4.9	21.2	0.5	1.0	24.1	-	**51.7**
Recognition of leases upon adoption of IFRS 16*	-	-	-	-	-	2.6	**2.6**
At 1 April 2019 including impact of IFRS 16 adoption	4.9	21.2	0.5	1.0	24.1	2.6	**54.3**
Additions	-	-	-	0.2	0.2	0.5	**0.9**
Transfers	-	-	-	-	-	-	**-**
Disposals	-	-	(0.5)	-	(5.0)	-	**(5.5)**
At 31 March 2020	**4.9**	**21.2**	**-**	**1.2**	**19.3**	**3.1**	**49.7**
Accumulated depreciation							
At 1 April 2019	0.2	2.7	-	0.6	19.8	-	**23.3**
Transfers	-	0.2	-	-	(0.2)	-	**-**
Charge for the year	0.1	1.0	-	0.1	1.6	0.4	**3.2**
Disposals	-	-	-	-	(5.0)	-	**(5.0)**
At 31 March 2020	**0.3**	**3.9**	**-**	**0.7**	**16.2**	**0.4**	**21.5**
Net book value							
At 31 March 2020	**4.6**	**17.3**	**-**	**0.5**	**3.1**	**2.7**	**28.2**

Society	Land and buildings: Freehold branches and non-specialised buildings £m	Land and buildings: Specialised administration buildings £m	Land and buildings: Held for sale £m	Short leasehold £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use assets £m	Total £m
Cost or valuation							
At 1 April 2018	5.4	21.2	-	1.0	23.2	-	50.8
Additions	-	-	-	-	1.2	-	1.2
Transfers	(0.5)	-	0.5	-	-	-	-
Disposals	-	-	-	-	(0.3)	-	(0.3)
At 31 March 2019	4.9	21.2	0.5	1.0	24.1	-	51.7
Accumulated depreciation							
At 1 April 2018	0.1	1.7	-	0.6	18.2	-	20.6
Charge for the year	0.1	1.0	-	-	1.9	-	3.0
Disposals	-	-	-	-	(0.3)	-	(0.3)
At 31 March 2019	0.2	2.7	-	0.6	19.8	-	23.3
Net book value							
At 31 March 2019	4.7	18.5	0.5	0.4	4.3	-	28.4

*The Group adopted IFRS 16 'Leases' from 1 April 2019. Further details are disclosed in note 41. The Groups leases mainly relate to its branch network.

The average remaining term of right-of-use assets at 31 March 2020 was 5.7 years.

The net book value of land and buildings occupied for the Society's own activities at 31 March is £22.4m (2018/19: £24.1m).

The Group's freehold branches and non-specialised buildings were last revalued at 31 March 2017 by Colliers International, a firm of independent chartered surveyors. The valuations were undertaken in accordance with the Valuation Standards issued by the Royal Institution of Chartered Surveyors in the United Kingdom. These valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve.

If land and buildings were carried at historical cost, the carrying amount would be £18.7m (2018/19: £19.7m).

18. Property, plant and equipment (continued)

As part of the ongoing funding agreement for the West Bromwich Building Society Staff Retirement Scheme (the SRS), the Trustees of the SRS have been granted a charge over the Society's Head Office, a specialised administration building. The charge may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS.

19. Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 19% (2018/19: 17% to 19%). The movement on the deferred tax account is as follows:

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
At beginning of year	**13.1**	10.8	**8.7**	11.3
Changes on initial application of IFRS 9	**-**	5.8	**-**	0.2
At beginning of year including impact of IFRS 9 adoption	**13.1**	16.6	**8.7**	11.5
Current year Income Statement credit/(charge)	**0.8**	(4.0)	**2.6**	(2.9)
Amount recognised directly in other comprehensive income	**0.1**	0.2	**0.1**	0.2
Adjustments in respect of prior years	**(0.3)**	0.3	**(0.1)**	(0.1)
At end of year	**13.7**	13.1	**11.3**	8.7

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

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
Deferred tax assets				
Accelerated tax depreciation	**6.2**	4.5	**6.2**	4.5
Carried forward tax losses	**6.8**	6.9	**4.4**	3.5
Pensions and other post retirement benefits	**0.5**	0.8	**0.5**	0.8
Other temporary differences	**6.9**	6.7	**1.9**	1.5
	20.4	18.9	**13.0**	10.3
Deferred tax liabilities				
Property valuations	**(5.7)**	(4.5)	**(0.7)**	(0.6)
Other temporary differences	**(1.0)**	(1.3)	**(1.0)**	(1.0)
	(6.7)	(5.8)	**(1.7)**	(1.6)

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

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
Accelerated tax depreciation	**1.7**	(0.7)	**1.7**	(0.7)
Other provisions	**0.1**	(0.8)	**-**	(0.3)
Carried forward tax losses	**0.4**	(1.9)	**1.5**	(2.0)
Property valuations	**(1.0)**	(0.3)	**-**	-
	1.2	(3.7)	**3.2**	(3.0)

Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable over the foreseeable future. The deferred tax asset balances attributable to carried forward losses are expected to be substantially recovered against future taxable profits (as projected in the latest Strategic Plan) within five years. The assumptions surrounding future expected credit losses and increases in the Bank Rate of interest represent the most subjective areas of judgement in management's projections of future taxable profits. No time limit is imposed for the recognition of other temporary differences, which largely relate to charges upon adoption of IFRS 9 (spread over the next 8 years) and capital gains allowances (substantially used within 8 years). The deferred tax assets have not been discounted. Unused tax losses, which have not been recognised within deferred tax assets at 31 March 2020, amounted to Group: £46.0m and Society: £15.0m. These losses will be available to offset against future taxable profits, subject to certain loss restriction rules set by HMRC.

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

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) for the Group and Society as at 31 March 2019 was calculated based on this rate. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This had the impact of increasing the deferred tax asset for the Group and Society by £0.3m and £0.1m respectively and will increase the Group's and Society's future current tax charge.

20. Trade and other receivables

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Prepayments and accrued income	**3.5**	3.3	**3.3**	3.3
Other	**0.6**	0.4	**0.4**	0.3
	4.1	3.7	**3.7**	3.6

21. Shares

Group and Society	2020 £m	2019 £m
Held by individuals	**3,845.1**	3,990.2
Other shares	**1.0**	1.0
	3,846.1	3,991.2

22. Amounts due to other customers

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Deemed loans	**14.0**	-	**307.6**	337.1
Other customers	**80.6**	77.7	**80.3**	78.5
	94.6	77.7	**387.9**	415.6

23. Debt securities in issue

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Certificates of deposit	**1.0**	1.0	**1.0**	1.0
Non-recourse finance on securitised advances	**265.3**	343.1	**-**	-
	266.3	344.1	**1.0**	1.0

The non-recourse finance comprises mortgage backed floating rate notes (the Notes) secured over portfolios of mortgage loans secured by first charges over residential and commercial properties in the United Kingdom (see note 13). Prior to redemption of the Notes on the final interest payment dates, the Notes will be subject to mandatory and/or optional redemption, in certain circumstances, on each interest payment date.

For the purposes of the Statements of Cash Flows, debt securities in issue are classified as liabilities arising from financing activities. The following table analyses movements in debt securities in issue.

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
At beginning of year	**344.1**	493.3	**1.0**	-
Financing cash flows				
Proceeds from issue of debt securities	**-**	1.0	**-**	1.0
Costs on issue of debt securities	**-**	-	**-**	-
Repayments of debt securities in issue	**(57.5)**	(149.2)	**-**	-
Non-cash flows:				
Accrued interest	**0.6**	1.0	**-**	-
Amortisation	**0.4**	0.4	**-**	-
Other movements*	**(21.3)**	(2.4)	**-**	-
At end of year	**266.3**	344.1	**1.0**	1.0

*Other movements in debt securities in issue in the current year relates to the derecognition of debt securities in issue following the deconsolidation of commercial securitised entities from the Group, which is further explained in note 42.

24. Trade and other payables

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Accruals	**7.0**	7.6	**6.5**	7.1
Lease liabilities	**2.8**	-	**2.8**	-
Other creditors	**5.4**	4.5	**4.8**	3.4
	15.2	12.1	**14.1**	10.5

The Group adopted IFRS 16 'Leases' from 1 April 2019, and applied the 'modified retrospective' approach, therefore comparative information has not been restated. Further information can be found in note 41.

The maturity analysis of lease liabilities is included in note 36.

The movement in lease liabilities in the year is analysed in the table below:

Group and Society	2020 £m
Recognition of lease liabilities on adoption of IFRS 16	**2.8**
Additions	**0.5**
Interest charged	**0.1**
Lease payments	**(0.6)**
At end of year	**2.8**

25. Provisions for liabilities

Group	FSCS 2020 £m	Other 2020 £m	Total 2020 £m
At beginning of year	-	1.4	**1.4**
Utilised in the year	-	(1.5)	**(1.5)**
Charge for the year	-	0.7	**0.7**
At end of year	-	0.6	**0.6**

Group	FSCS 2019 £m	Other 2019 £m	Total 2019 £m
At beginning of year	0.2	1.9	2.1
Utilised in the year	(0.2)	(0.8)	(1.0)
Charge for the year	-	0.3	0.3
At end of year	-	1.4	1.4

Society	FSCS 2020 £m	Other 2020 £m	Total 2020 £m
At beginning of year	-	0.9	**0.9**
Utilised in the year	-	(0.9)	**(0.9)**
Charge for the year	-	0.5	**0.5**
At end of year	-	0.5	**0.5**

Society	FSCS 2019 £m	Other 2019 £m	Total 2019 £m
At beginning of year	0.2	1.8	2.0
Utilised in the year	(0.2)	(0.9)	(1.1)
Charge for the year	-	-	-
At end of year	-	0.9	0.9

Other provisions

Other provisions primarily relate to Payment Protection Insurance (PPI) redress. The level of provision has reduced after the 29 August 2019 deadline set by the Financial Conduct Authority (FCA) was passed.

26. Subscribed capital

Group and Society	Number of shares		Carrying value	
	2020	2019	**2020 £m**	2019 £m
Permanent interest bearing shares				
At beginning of year	**8,891**	75,000	**8.9**	75.0
Capital restructuring	**-**	(66,109)	**-**	(66.1)
At end of year	**8,891**	8,891	**8.9**	8.9

The 6.15% permanent interest bearing shares (PIBS) comprised 8,891 PIBS of £1,000 each issued at a price of 99.828% of their principal amount, with the issue premium amortised. £66,109,000 in aggregate nominal amount of the PIBS were exchanged or tendered and subsequently cancelled as part of the Liability Management Exercise (LME) in the prior year.

The PIBS are repayable at the option of the Society in whole on the 5 April 2021 or any scheduled interest payment thereafter, subject to PRA approval.

In a winding up or dissolution of the Society the claims of the holders of permanent interest bearing shares (PIBS) would rank behind all other creditors of the Society, with the exception of the claims of holders of core capital deferred shares (CCDS). The holders of PIBS are not entitled to any share in any final surplus upon winding up or dissolution of the Society.

Future interest payments are at the discretion of the Society, up to a maximum 6.15% prior to 5 April 2021 and, thereafter, a rate of interest reset periodically and equal to the applicable 5-year gilt rate plus a margin of 2.8%. As announced on 2 October 2019, the Board resolved not to make an interest payment on the scheduled interest payment date of 5 October 2019. The Board further resolved not to make an interest payment on the scheduled interest payment date of 5 April 2020.

Whilst noting that any interest payments on the PIBS are at the sole discretion of the Society, the Society announced during its capital restructuring in 2018 that any future payments on PIBS will be made only if and to the extent that they would have been permitted had the LME had not taken place, and in the context of determining the equivalent annual yield that would have been paid to holders of the Society's Profit Participating Deferred Shares (PPDS) had they remained in issue on their original terms. Under the terms and conditions of the PPDS (which are available for viewing on the Society's website), the Society's ability to pay PPDS distributions was constrained by reference to a percentage of profits generated in the relevant financial year, and to the extent of any positive balance on a special PPDS reserve account (to which a percentage of profits or losses of the Society was allocated each year).

Whilst PPDS instruments no longer exist (having been exchanged during the LME), the Society continues to monitor a notional PPDS reserve. At 31 March 2018 (the last accounting date before the completion of the LME) the deficit on the PPDS reserve stood at £9.1m. At 31 March 2019, £2.5m (equivalent to 25% of retained profits (as restated as detailed in note 43) after adding back costs of Tier 2 instruments, net of tax) was added to the notional PPDS reserve, reducing the balance to £6.6m. For the year ended 31 March 2020, the Society generated a reported net profit of £1.5m, including the impact of £2.5m Tier 2 interest payable. The net profit disregarding Tier 2 interest (after tax) would therefore have been £3.5m. Accordingly, during the year the notional PPDS reserve deficit reduced by £0.9m (25% of £3.5m) leaving a deficit of £5.7m at 31 March 2020.

27. Core capital deferred shares

Group and Society	Number of shares	CCDS nominal amount £m	Share premium £m	Total £m
At 1 April 2019	1,288,813	1.3	125.7	**127.0**
At 31 March 2020	**1,288,813**	**1.3**	**125.7**	**127.0**

Group and Society	Number of shares	CCDS nominal amount £m	Share premium £m	Total £m
At 1 April 2018	-	-	-	-
Issuance	1,288,813	1.3	127.6	128.9
Issue costs	-	-	(1.9)	(1.9)
At 31 March 2019	1,288,813	1.3	125.7	127.0

CCDS are perpetual instruments and a form of Common Equity Tier 1 (CET 1) capital.

CCDS are the most junior-ranking capital instrument of the Society, ranking behind the claims of all depositors, payables and investing members.

Each holder of CCDS has one vote, regardless of the number of CCDS held.

The CCDS holders are entitled to receive a distribution at the discretion of the Society. The total distribution paid on each CCDS in respect of any given financial year of the Society is subject to a cap provided for in the Rules of the Society and adjusted annually for inflation. The Directors declared an interim distribution of £0.50 per CCDS in respect of the period to 30 September 2019 and was paid in February 2020. These distributions have been recognised in the Statement of Changes in Members' Interests and Equity. The Directors declared a final distribution in May 2020 of £0.50 per CCDS, which will be paid in August 2020. The final distribution is not reflected in these financial statements as distributions to the CCDS holders are recognised with reference to the date they are declared.

In the event of a winding up or dissolution of the Society, the share of surplus assets (if any) a CCDS holder would be eligible to receive is determined by the calculation of a core capital contribution proportion, limited to a maximum of the average principal amount, currently £100 per CCDS.

28. Subordinated liabilities

Group and Society	2020 £m	2019 £m
Subordinated notes due 2038 – 11.0%	**22.8**	22.8

The Society's subordinated notes rank behind all other creditors of the Society, with the exception of holders of CCDS and PIBS.

For the purposes of the Statements of Cash Flows, subordinated liabilities are classified as liabilities arising from financing activities. The following table analyses movements in subordinated liabilities.

Group and Society	2020 £m	2019 £m
At beginning of year	**22.8**	-
Financing cash flows		
Interest paid on subordinated liabilities	**(2.5)**	(1.2)
Costs on issue of subordinated liabilities	**-**	(0.9)
Non-cash flows:		
Issuance in exchange for PPDS	**-**	22.5
Accrued interest (settled during the year)	**1.3**	1.2
Accrued interest (carried forward at 31 March 2019)	**1.2**	1.2
At end of year	**22.8**	22.8

29. Financial assets and liabilities at fair value through profit or loss (FVTPL)

Financial assets mandatorily measured at FVTPL

The Society's closed portfolio of equity release mortgages is held at FVTPL under IFRS 9. The movements on the portfolio during the year are analysed in the table below.

Group and Society	2020 £m	2019 £m
At 1 April 2019	14.8	18.4
Interest added	1.0	1.0
Redemptions	(2.4)	(2.9)
Changes in fair value	(0.1)	(1.7)
At 31 March 2020	**13.3**	14.8

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

Group	Before tax amount 2020 £m	Taxation 2020 £m	Net of tax amount 2020 £m
Fair value through other comprehensive income investments	(2.2)	0.4	(1.8)
Retirement benefit obligations	(0.7)	0.3	(0.4)
Other comprehensive income	**(2.9)**	**0.7**	**(2.2)**

Group	Before tax amount 2019 £m	Taxation 2019 £m	Net of tax amount 2019 £m
Fair value through other comprehensive income investments	(1.1)	0.2	(0.9)
Retirement benefit obligations	(2.5)	0.5	(2.0)
Other comprehensive income	(3.6)	0.7	(2.9)

Society	Before tax amount 2020 £m	Taxation 2020 £m	Net of tax amount 2020 £m
Fair value through other comprehensive income investments	(2.2)	0.4	(1.8)
Retirement benefit obligations	(0.7)	0.3	(0.4)
Other comprehensive income	**(2.9)**	**0.7**	**(2.2)**

Society	Before tax amount 2019 £m	Taxation 2019 £m	Net of tax amount 2019 £m
Fair value through other comprehensive income investments	(1.1)	0.2	(0.9)
Retirement benefit obligations	(2.5)	0.5	(2.0)
Other comprehensive income	(3.6)	0.7	(2.9)

31. Retirement benefit obligations

Group and Society	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Net defined benefit pension scheme obligation/(asset)	**2.7**	4.9	5.1	6.5	(0.8)

Defined benefit plans

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

The results of a formal actuarial valuation at 31 March 2019 carried out by the appointed actuary to the Scheme have been rolled forward to the accounting date by an independent qualified actuary and updated in accordance with IAS 19, 'Employee Benefits'. Pension obligations are valued differently for accounting and funding purposes. In accordance with IAS 19, best estimate assumptions are used to determine the retirement benefit obligation shown in the Statement of Financial Position whereas the funding valuations use more prudent assumptions and also include allowance for future administration costs, which are not included in the IAS 19 valuation.

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

As part of the ongoing funding agreement for the SRS, the Trustees of the SRS have been granted a charge over the Society's Head Office, which may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS. In addition to this, the estimated amount of total employer deficit contributions expected to be paid to the Scheme during 2020/21, based on the required amounts under the schedule of contributions is £4.5m.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

IAS 19 allows an employer to recognise a surplus as an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme, even if the refunds may only be available at some distant time in the future, such as after the last benefit has been paid.

The weighted average duration of the expected benefit payments from the Scheme is around 17 years.

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

Group and Society	2020	2019	2018	2017	2016
Pension increases in payment (RPI capped at 5%)	**2.5%**	3.0%	3.0%	3.1%	2.8%
Pension increases in payment (CPI capped at 2.5%)	**1.5%**	1.8%	1.7%	1.7%	1.6%
Discount rate	**2.3%**	2.4%	2.8%	2.8%	3.7%
Life expectancy of male aged 65 at year end date	**21.8**	22.4	22.9	23.2	23.0
Life expectancy of female aged 65 at year end date	**23.7**	23.4	23.8	24.2	24.4
Life expectancy of male aged 65 at year end date plus 20 years	**23.1**	23.7	24.3	25.0	24.4
Life expectancy of female aged 65 at year end date plus 20 years	**25.2**	24.9	25.3	26.1	25.9

The discount rate used reflects the exceptional market conditions that existed at the 31 March 2020. The sensitivity of the defined benefit obligation to changes in the significant actuarial assumptions is shown in the table below (on a gross basis, prior to the application of hedging arrangements which are described in the 'Scheme assets' section of this note):

Group and Society	2020 Increase/ (Decrease) £m	2019 Increase/ (Decrease) £m
Discount rate		
Effect on defined benefit obligation of a 1% increase	**(16.7)**	(19.0)
Inflation		
Effect on defined benefit obligation of a 1% increase	**14.8**	15.3
Life expectancy		
Effect on defined benefit obligation of a 1 year increase	**3.4**	4.0

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

Group and Society	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Present value of funded obligations	**108.2**	113.1	108.5	113.2	93.6
Present value of unfunded obligations	**0.7**	0.8	0.7	0.8	0.6
	108.9	113.9	109.2	114.0	94.2
Fair value of scheme assets	**(106.2)**	(109.0)	(104.1)	(107.5)	(95.0)
Net liability/(asset) in the Statement of Financial Position	**2.7**	4.9	5.1	6.5	(0.8)

The amounts recognised in the Income Statement are as follows:

Group and Society	2020 £m	2019 £m	2018 £m
Interest cost	**2.7**	3.0	3.1
Interest receivable on plan assets	**(2.6)**	(2.9)	(3.0)
Running costs	**0.4**	0.2	0.3
Past service cost	**-**	0.4	-
Total pension fund cost	**0.5**	0.7	0.4

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

The 2018/19 past service cost of £0.4m represents the estimated costs of Guaranteed Minimum Pension (GMP) equalisation, in response to the High Court ruling in the Lloyds Bank GMP Inequalities case on 26 October 2018. There is no further equalisation cost this year.

Change in benefit obligations

Group and Society	2020 £m	2019 £m	2018 £m
Benefit obligations at beginning of year	**113.9**	109.2	114.0
Interest cost	**2.7**	3.0	3.1
Actuarial (gains)/losses	**(4.0)**	5.1	(2.5)
Running costs (release of reserve)	**-**	(0.1)	(0.1)
Benefits paid	**(3.7)**	(3.7)	(5.3)
Past service cost	**-**	0.4	-
Benefit obligations at end of year	**108.9**	113.9	109.2

31. Retirement benefit obligations (continued)

Change in scheme assets

Group and Society	2020 £m	2019 £m	2018 £m
Fair value of scheme assets at beginning of year	**109.0**	104.1	107.5
Interest receivable on plan assets	**2.6**	2.9	3.0
Actuarial (losses)/gains	**(4.7)**	2.6	(4.1)
Contribution by employer	**3.4**	3.4	3.4
Running costs	**(0.4)**	(0.3)	(0.4)
Benefits paid	**(3.7)**	(3.7)	(5.3)
Fair value of scheme assets at end of year	**106.2**	109.0	104.1

The amount recognised outside profit and loss in the Statement of Comprehensive Income for 2019/20 is an actuarial loss of £0.7m (2018/19: loss £2.5m). The cumulative amount recognised outside profit and loss at 31 March 2020 is an actuarial loss of £58.4m.

History of experience gains and losses

Group and Society	2020	2019	2018	2017	2016
Experience (losses)/gains on scheme assets:					
Amount (£m)	**(4.7)**	2.6	(4.1)	10.6	(6.1)
Percentage of scheme assets	**(4%)**	2%	(4%)	10%	(6%)
Experience losses/(gains) on scheme liabilities:					
Amount (£m)	**0.3**	-	0.7	(0.9)	(1.7)
Percentage of scheme liabilities	**0%**	0%	1%	(1%)	(2%)

Scheme assets

The value of the invested assets at 31 March 2020 was £106.2m, analysed as follows:

Group and Society	2020 £m	2019 £m	2018 £m
Diversified growth fund	**60.2**	55.8	54.4
Liability driven investment	**26.2**	27.2	28.3
Insurance asset	**17.7**	18.7	18.5
Cash and other assets	**2.1**	7.3	2.9
	106.2	109.0	104.1

As part of its asset and liability matching investment strategy, designed to mitigate inflation and interest rate risk exposure, the Scheme has invested in four pooled liability driven investment funds. In addition, an insurance policy has been purchased to provide income which provides a specific match against the liabilities arising from a large proportion of the Scheme's current pensioners. The Scheme is targeted to be 80-90% hedged on movements in interest rates and inflation rates based on the Technical Provisions funding target.

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

Stakeholder scheme

The total cost for the year of the stakeholder plan to the Group and Society was £1.2m (2018/19: £1.3m).

For the period through to 31 July 2009 staff could contribute between 2% and 9% with the Society contributing on a sliding scale between 2% and 7%. From 1 August 2009 to 31 March 2018 staff were able to contribute between 2% and 10% with the Society providing matched funding. From 1 April 2018 staff within the stakeholder scheme were required to contribute between 3% and 10%, with the Society providing matched funding plus 0.6%. From 1 April 2019 staff within the stakeholder scheme are required to contribute between 4% and 10%, with the Society providing matched funding plus 0.6%.

32. Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

The Group is a retailer of financial instruments, mainly in the form of mortgages and savings. The Group uses wholesale financial instruments to invest liquid asset balances and raise wholesale funding, and to manage the risks arising from its operations. As a result of these activities, the Group is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk (principally interest rate risk). These risks are described in notes 33 to 35.

The use of derivative financial instruments for risk management purposes is described in note 12.

Classification of financial assets and financial liabilities

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

At 31 March 2020

Group	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	263.5	-	-	**263.5**
Loans and advances to credit institutions	123.6	-	-	**123.6**
Investment securities	-	284.3	1.0	**285.3**
Derivative financial instruments	-	-	4.5	**4.5**
Loans and advances to customers	4,678.3	-	13.3	**4,691.6**
Total financial assets	**5,065.4**	**284.3**	**18.8**	**5,368.5**
Non-financial assets				**208.3**
Total assets				**5,576.8**

	Amortised cost £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	3,846.1	-	**3,846.1**
Amounts due to credit institutions	883.8	-	**883.8**
Amounts due to other customers	94.6	-	**94.6**
Derivative financial instruments	-	54.2	**54.2**
Debt securities in issue	266.3	-	**266.3**
Subordinated liabilities	22.8	-	**22.8**
Total financial liabilities	**5,113.6**	**54.2**	**5,167.8**
Non-financial liabilities			**25.2**
Total liabilities			**5,193.0**

32. **Financial instruments** (continued)

At 31 March 2019

Group	Amortised cost Restated* £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total Restated* £m
Assets				
Cash and balances with the Bank of England	182.5	-	-	182.5
Loans and advances to credit institutions	106.7	-	-	106.7
Investment securities	-	309.3	-	309.3
Derivative financial instruments	-	-	6.5	6.5
Loans and advances to customers	4,730.6	-	14.8	4,745.4
Total financial assets	5,019.8	309.3	21.3	5,350.4
Non-financial assets				202.2
Total assets				5,552.6

	Amortised cost £m	Fair value through profit or loss £m	Total Restated* £m
Liabilities			
Shares	3,991.2	-	3,991.2
Amounts due to credit institutions	667.3	-	667.3
Amounts due to other customers	77.7	-	77.7
Derivative financial instruments	-	39.3	39.3
Debt securities in issue	344.1	-	344.1
Subordinated liabilities	22.8	-	22.8
Total financial liabilities	5,103.1	39.3	5,142.4
Non-financial liabilities			25.1
Total liabilities			5,167.5

*2019 loans and advances to customers and non-financial liabilities have been restated as explained in note 43.

At 31 March 2020

Society	Amortised cost £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total £m
Assets				
Cash and balances with the Bank of England	263.5	-	-	**263.5**
Loans and advances to credit institutions	78.6	-	-	**78.6**
Investment securities	579.4	284.3	1.0	**864.7**
Derivative financial instruments	-	-	4.5	**4.5**
Loans and advances to customers	3,142.6	-	13.3	**3,155.9**
Investments	1,136.3	-	-	**1,136.3**
Total financial assets	**5,200.4**	**284.3**	**18.8**	**5,503.5**
Non-financial assets				**61.6**
Total assets				**5,565.1**

	Amortised cost £m	Fair value through profit or loss £m	Total £m
Liabilities			
Shares	3,846.1	-	**3,846.1**
Amounts due to credit institutions	858.8	-	**858.8**
Amounts due to other customers	387.9	-	**387.9**
Derivative financial instruments	-	51.6	**51.6**
Subordinated liabilities	22.8	-	**22.8**
Total financial liabilities	**5,115.6**	**51.6**	**5,167.2**
Non-financial liabilities			**20.0**
Total liabilities			**5,187.2**

32. Financial instruments (continued)

At 31 March 2019

Society	Amortised cost Restated* £m	Fair value through other comprehensive income £m	Fair value through profit or loss £m	Total Restated* £m
Assets				
Cash and balances with the Bank of England	182.5	-	-	182.5
Loans and advances to credit institutions	59.0	-	-	59.0
Investment securities	623.7	309.3	1.2	934.2
Derivative financial instruments	-	-	5.9	5.9
Loans and advances to customers	3,080.6	-	14.8	3,095.4
Investments	1,215.8	-	-	1,215.8
Total financial assets	5,161.6	309.3	21.9	5,492.8
Non-financial assets				58.2
Total assets				5,551.0

	Amortised cost £m	Fair value through profit or loss £m	Total Restated* £m
Liabilities			
Shares	3,991.2	-	3,991.2
Amounts due to credit institutions	667.3	-	667.3
Amounts due to other customers	415.6	-	415.6
Derivative financial instruments	-	35.5	35.5
Subordinated liabilities	22.8	-	22.8
Total financial liabilities	5,096.9	35.5	5,132.4
Non-financial liabilities			19.8
Total liabilities			5,152.2

*2019 loans and advances to customers and non-financial liabilities have been restated as explained in note 43.

Fair values of financial assets and financial liabilities

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

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

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

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

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

The carrying value of cash and balances with the Bank of England are assumed to approximate their fair value.

Financial assets and financial liabilities held at amortised cost

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

At 31 March 2020

Group	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	**123.6**	-	123.6	-	**123.6**
Loans and advances to customers	**4,678.3**	-	-	4,707.3	**4,707.3**
	4,801.9	**-**	**123.6**	**4,707.3**	**4,830.9**
Financial liabilities					
Shares	**3,846.1**	-	-	3,827.4	**3,827.4**
Amounts due to credit institutions	**883.8**	-	883.8	-	**883.8**
Amounts due to other customers	**94.6**	-	94.6	-	**94.6**
Debt securities in issue	**266.3**	258.0	1.7	-	**259.7**
Subordinated liabilities	**22.8**	-	22.8	-	**22.8**
	5,113.6	**258.0**	**1,002.9**	**3,827.4**	**5,088.3**

At 31 March 2019

Group	Carrying value Restated* £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	106.7	-	106.7	-	106.7
Loans and advances to customers	4,730.6	-	-	4,669.9	4,669.9
	4,837.3	-	106.7	4,669.9	4,776.6
Financial liabilities					
Shares	3,991.2	-	-	3,955.5	3,955.5
Amounts due to credit institutions	667.3	-	667.3	-	667.3
Amounts due to other customers	77.7	-	77.7	-	77.7
Debt securities in issue	344.1	327.2	15.8	-	343.0
Subordinated liabilities	22.8	-	22.8	-	22.8
	5,103.1	327.2	783.6	3,955.5	5,066.3

*2019 loans and advances to customers have been restated as explained in note 43.

32. Financial instruments (continued)

At 31 March 2020

Society	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	**78.6**	-	78.6	-	**78.6**
Investment securities	**579.4**	-	578.5	-	**578.5**
Loans and advances to customers	**3,142.6**	-	-	3,212.0	**3,212.0**
Investments	**1,136.3**	1,136.3	-	-	**1,136.3**
	4,936.9	**1,136.3**	**657.1**	**3,212.0**	**5,005.4**
Financial liabilities					
Shares	**3,846.1**	-	-	3,827.4	**3,827.4**
Amounts due to credit institutions	**858.8**	-	858.8	-	**858.8**
Amounts due to other customers	**387.9**	-	387.9	-	**387.9**
Debt securities in issue	**1.0**	-	1.0	-	**1.0**
Subordinated liabilities	**22.8**	-	22.8	-	**22.8**
	5,116.6	**-**	**1,270.5**	**3,827.4**	**5,097.9**

At 31 March 2019

Society	Carrying value Restated* £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	59.0	-	59.0	-	59.0
Investment securities	623.7	-	623.4	-	623.4
Loans and advances to customers	3,080.6	-	-	3,102.5	3,102.5
Investments	1,215.8	1,215.8	-	-	1,215.8
	4,979.1	1,215.8	682.4	3,102.5	5,000.7
Financial liabilities					
Shares	3,991.2	-	-	3,955.5	3,955.5
Amounts due to credit institutions	667.3	-	667.3	-	667.3
Amounts due to other customers	415.6	-	415.6	-	415.6
Debt securities in issue	1.0	-	1.0	-	1.0
Subordinated liabilities	22.8	-	22.8	-	22.8
	5,097.9	-	1,106.7	3,955.5	5,062.2

*2019 loans and advances to customers have been restated as explained in note 43.

a) Loans and advances to customers
The fair value of loans and advances to customers has been determined taking into account factors such as impairment and interest rates. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2020.

b) Shares and borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 31 March 2020.

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

Financial assets and financial liabilities held at fair value

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

Group	**Level 1 2020 £m**	**Level 2 2020 £m**	**Level 3 2020 £m**	**Total 2020 £m**
Financial assets				
Investment securities				
At fair value through other comprehensive income	284.3	-	-	**284.3**
At fair value through profit or loss	1.0	-	-	**1.0**
Derivative financial instruments	-	4.5	-	**4.5**
Loans and advances to customers	-	-	13.3	**13.3**
	285.3	**4.5**	**13.3**	**303.1**
Financial liabilities				
Derivative financial instruments	-	54.2	-	**54.2**
	-	**54.2**	**-**	**54.2**

Group	Level 1 2019 £m	Level 2 2019 £m	Level 3 2019 £m	Total 2019 £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	309.3	-	-	309.3
Derivative financial instruments	-	6.5	-	6.5
Loans and advances to customers	-	-	14.8	14.8
	309.3	6.5	14.8	330.6
Financial liabilities				
Derivative financial instruments	-	39.3	-	39.3
	-	39.3	-	39.3

32. Financial instruments (continued)

Society	**Level 1 2020 £m**	**Level 2 2020 £m**	**Level 3 2020 £m**	**Total 2020 £m**
Financial assets				
Investment securities				
At fair value through other comprehensive income	284.3	-	-	**284.3**
At fair value through profit or loss	1.0	-	-	**1.0**
Derivative financial instruments	-	4.5	-	**4.5**
Loans and advances to customers	-	-	13.3	**13.3**
	285.3	**4.5**	**13.3**	**303.1**
Financial liabilities				
Derivative financial instruments	-	51.6	-	**51.6**
	-	**51.6**	**-**	**51.6**

Society	Level 1 2019 £m	Level 2 2019 £m	Level 3 2019 £m	Total 2019 £m
Investment securities				
At fair value through other comprehensive income	309.3	-	-	309.3
At fair value through profit or loss	1.2	-	-	1.2
Derivative financial instruments	-	5.9	-	5.9
Loans and advances to customers	-	-	14.8	14.8
	310.5	5.9	14.8	331.2
Financial liabilities				
Derivative financial instruments	-	35.5	-	35.5
	-	35.5	-	35.5

The Society's equity release mortgage portfolio is measured at fair value using a discounted cash flow model for which key inputs are not based on observable market data. The calculation therefore meets the definition of a level 3 valuation technique. Details of the key model assumptions and the fair value impact of changes in those assumptions are given in the accounting policies.

The table below analyses movements in the level 3 portfolio during the period.

Group and Society	**2020 £m**	2019 £m
Equity release portfolio		
At 1 April	**14.8**	18.4
Items recognised in the Income Statement		
Interest receivable and similar income	**1.0**	1.0
Fair value losses on financial instruments	**(0.1)**	(1.7)
Redemptions	**(2.4)**	(2.9)
At 31 March	**13.3**	14.8

There have been no transfers of financial assets or liabilities between levels of the valuation hierarchy in the period.

33. Credit risk

(a) Credit risk definition and management

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

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

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

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

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

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

- The Executive Risk Committee (ERC) is responsible for providing the Risk Committee with an enterprise wide view of the risk profile of the Society including current and potential risks. The ERC is also accountable for driving the detailed implementation of the Society's Risk Management Framework. In the context of credit risk, the ERC proposes to Risk Committee any recommendations for Board approval regarding the Residential Lending Statement and Credit Risk Appetite Statement. The ERC approves material changes to the Lending and Security Policies, and reviews these policies every third year as a minimum. A summary of the minutes of this committee are presented to the Risk Committee.
- The Residential Credit Committee is responsible for the monitoring of the Group's residential credit exposures and approving changes to the credit scoring systems that are utilised. In addition, the Committee reviews the type and quality of approved residential mortgage business and appraises actual arrears and repossession levels against trends and industry averages. A summary of the minutes of this committee are presented to the ERC.
- The Commercial Loan Risk Committee reviews individual commercial loans at levels mandated by the Board. This may involve reviewing individual cases on a quarterly, half yearly or annual basis.
- The Model Risk Committee supports the Society's development and maintenance of models, including those related to the management of credit risk. The Committee oversees the initiation, development, approval, implementation, performance, monitoring and validation of the Society's models in the context of compliance with both Regulation and the Society's own governance requirements. A summary of the minutes of this committee are presented to the ERC.

The Group adopts a responsible approach to lending ensuring that loans are, and are expected to remain, affordable.

The maximum credit risk exposure is the carrying value as shown in the tables on pages 119 to 122.

The Group's most significant exposures to credit risk are loans secured on UK residential properties and loans secured on UK land.

(b) Residential assets held at amortised cost

Concentration by loan type	**Group 2020 £m**	Group 2019 Restated* £m	**Society 2020 £m**	Society 2019 Restated* £m
Prime owner occupied	**2,859.1**	2,797.3	**2,750.7**	2,672.2
Buy to let	**1,422.9**	1,503.2	**347.9**	374.9
Other	**56.0**	63.3	**1.0**	1.2
Gross balances	**4,338.0**	4,363.8	**3,099.6**	3,048.3
Expected credit loss provisions	**(7.0)**	(6.0)	**(2.4)**	(1.2)
Fair value hedge adjustments	**11.8**	(0.8)	**11.8**	(0.8)
	4,342.8	4,357.0	**3,109.0**	3,046.3

*2019 fair value hedge adjustments were restated as explained in note 43.

33. Credit risk (continued)

(i) Credit quality

The Group assesses credit risk on owner occupied and buy to let residential mortgages using behavioural scorecard and other analysis to determine probabilities of default across a number of rating grades. The IFRS 9 impairment models make use of this data, incorporating forecasts of future economic conditions and account-specific factors to produce forward-looking probabilities of default by account and allocating loans to one of three stages (as explained in note 1).

The table below analyses gross exposures to residential assets by 12-month probability of default and IFRS 9 stage at the reporting date, with the exception of the closed second charge lending portfolio for which probability of possession is used as a credit risk measure, rather than probability of default.

At 31 March 2020

	Group				Society			
Probability of default range (%)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
0.00 to < 0.25	2,934.6	100.7	-	**3,035.3**	2,364.6	82.5	-	**2,447.1**
0.25 to < 0.50	605.5	49.4	-	**654.9**	376.7	21.8	-	**398.5**
0.50 to < 0.75	129.3	42.7	-	**172.0**	23.5	7.6	-	**31.1**
0.75 to < 1.00	34.1	5.3	-	**39.4**	0.6	-	-	**0.6**
1.00 to < 5.00	133.6	161.6	-	**295.2**	64.1	93.0	0.1	**157.2**
5.00 to < 10.00	11.1	1.0	-	**12.1**	4.9	0.6	-	**5.5**
10.00 to < 100.00	32.8	30.7	-	**63.5**	18.3	19.4	-	**37.7**
100.00 (default)	-	-	55.2	**55.2**	-	-	21.9	**21.9**
Second charge	7.0	2.1	1.3	**10.4**	-	-	-	**-**
	3,888.0	**393.5**	**56.5**	**4,338.0**	**2,852.7**	**224.9**	**22.0**	**3,099.6**

At 31 March 2019

	Group				Society			
Probability of default range (%)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
0.00 to < 0.25	3,070.7	109.0	-	3,179.7	2,362.7	86.0	-	2,448.7
0.25 to < 0.50	495.0	39.2	-	534.2	325.5	17.7	-	343.2
0.50 to < 0.75	182.7	44.7	-	227.4	27.0	6.8	-	33.8
0.75 to < 1.00	15.3	3.8	-	19.1	0.3	0.1	-	0.4
1.00 to < 5.00	90.5	186.4	-	276.9	73.9	95.3	-	169.2
5.00 to < 10.00	4.4	0.2	-	4.6	3.2	0.2	-	3.4
10.00 to < 100.00	20.5	28.7	-	49.2	9.6	16.0	-	25.6
100.00 (default)	-	-	60.3	60.3	-	-	24.0	24.0
Second charge	8.1	2.9	1.4	12.4	-	-	-	-
	3,887.2	414.9	61.7	4,363.8	2,802.2	222.1	24.0	3,048.3

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

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Not past due	**4,300.6**	4,319.8	**3,084.3**	3,032.7
Past due 1 to 3 months	**22.4**	27.2	**8.2**	9.2
Past due 3 to 6 months	**7.7**	7.3	**3.5**	4.0
Past due 6 to 12 months	**3.2**	1.7	**1.5**	0.9
Past due over 12 months	**1.2**	1.2	**0.8**	0.5
Possessions	**2.9**	6.6	**1.3**	1.0
	4,338.0	4,363.8	**3,099.6**	3,048.3

(ii) Expected credit losses
The table below illustrates the IFRS 9 staging distribution of residential loans and advances to customers held at amortised cost, loan commitments and related expected credit loss provisions at the year end. Stage 2 loans have been further analysed to show those which are more than 30 days past due, the IFRS 9 backstop for identifying a significant increase in credit risk (SICR), and those which meet other SICR criteria as detailed in note 1 to the accounts.

At 31 March 2020

	Group Gross exposure £m	Group Expected credit loss provision £m	Group Provision coverage %	Society Gross exposure £m	Society Expected credit loss provision £m	Society Provision coverage %
Residential loans at amortised cost						
Stage 1	**3,888.0**	**1.1**	**0.03%**	**2,852.7**	**0.3**	**0.01%**
Stage 2						
> 30 days past due	**12.9**	**0.2**	**1.55%**	**4.5**	**-**	**0.00%**
Other SICR indicators	**380.6**	**1.5**	**0.39%**	**220.4**	**0.4**	**0.18%**
Overlays in respect of payment holidays	**-**	**1.0**	**-**	**-**	**0.8**	**-**
Stage 3	**56.5**	**3.2**	**5.66%**	**22.0**	**0.9**	**4.09%**
	4,338.0	**7.0**	**0.16%**	**3,099.6**	**2.4**	**0.08%**
Loan commitments						
Stage 1	**191.1**	**-**	**0.00%**	**175.9**	**-**	**0.00%**

At 31 March 2019

	Group Gross exposure £m	Group Expected credit loss provision £m	Group Provision coverage %	Society Gross exposure £m	Society Expected credit loss provision £m	Society Provision coverage %
Residential loans at amortised cost						
Stage 1	3,887.2	0.6	0.02%	2,802.2	0.1	0.00%
Stage 2						
> 30 days past due	15.1	0.2	1.42%	5.6	-	0.59%
Other SICR indicators	399.8	0.9	0.21%	216.5	0.2	0.09%
Stage 3	61.7	4.3	6.97%	24.0	0.9	3.72%
	4,363.8	6.0	0.14%	3,048.3	1.2	0.04%
Loan commitments						
Stage 1	75.7	-	0.00%	66.3	-	0.00%

For the purposes of the disclosure above, gross exposures and expected credit loss provisions are rounded to the nearest £0.1m whereas the provision coverage percentages are based on the underlying data prior to rounding.

33. Credit risk (continued)

The tables below analyse the movement in gross residential exposures and the related expected credit loss allowances for the year ended 31 March 2020:

	Group				Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Gross exposure								
At 1 April 2019	3,887.2	414.9	61.7	**4,363.8**	2,802.2	222.1	24.0	**3,048.3**
Transfers due to increased credit risk:								
From stage 1 to stage 2	(147.3)	147.3	-	**-**	(99.9)	99.9	-	**-**
From stage 1 to stage 3	(8.2)	-	8.2	**-**	(2.7)	-	2.7	**-**
From stage 2 to stage 3	-	(12.6)	12.6	**-**	-	(4.7)	4.7	**-**
Transfers due to decreased credit risk:								
From stage 2 to stage 1	120.7	(120.7)	-	**-**	66.2	(66.2)	-	**-**
From stage 3 to stage 1	2.2	-	(2.2)	**-**	0.9	-	(0.9)	**-**
From stage 3 to stage 2	-	7.7	(7.7)	**-**	-	3.2	(3.2)	**-**
Mortgage advances	568.9	-	-	**568.9**	540.9	-	-	**540.9**
Net redemptions and repayments	(538.1)	(43.1)	(14.7)	**(595.9)**	(457.3)	(29.4)	(4.9)	**(491.6)**
Amounts written off	-	-	(2.5)	**(2.5)**	-	-	(0.4)	**(0.4)**
Other movements	2.6	-	1.1	**3.7**	2.4	-	-	**2.4**
At 31 March 2020	**3,888.0**	**393.5**	**56.5**	**4,338.0**	**2,852.7**	**224.9**	**22.0**	**3,099.6**

	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross exposure								
At 1 April 2018	3,907.7	379.5	72.9	4,360.1	2,729.2	164.8	23.6	2,917.6
Transfers due to increased credit risk:								
From stage 1 to stage 2	(231.0)	231.0	-	-	(146.9)	146.9	-	-
From stage 1 to stage 3	(12.8)	-	12.8	-	(6.7)	-	6.7	-
From stage 2 to stage 3	-	(19.2)	19.2	-	-	(7.0)	7.0	-
Transfers due to decreased credit risk:								
From stage 2 to stage 1	151.6	(151.6)	-	-	65.4	(65.4)	-	-
From stage 3 to stage 1	6.7	-	(6.7)	-	1.9	-	(1.9)	-
From stage 3 to stage 2	-	15.2	(15.2)	-	-	4.7	(4.7)	-
Mortgage advances	691.3	-	-	691.3	684.7	-	-	684.7
Net redemptions and repayments	(626.7)	(40.0)	(17.5)	(684.2)	(525.9)	(21.9)	(5.8)	(553.6)
Amounts written off	(0.1)	-	(3.7)	(3.8)	-	-	(0.9)	(0.9)
Other movements	0.5	-	(0.1)	0.4	0.5	-	-	0.5
At 31 March 2019	3,887.2	414.9	61.7	4,363.8	2,802.2	222.1	24.0	3,048.3

	Group				Society			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Expected credit loss provision								
At 1 April 2019	0.6	1.1	4.3	**6.0**	0.1	0.2	0.9	**1.2**
Transfers due to increased credit risk:								
From stage 1 to stage 2	-	0.5	-	**0.5**	-	0.2	-	**0.2**
From stage 1 to stage 3	-	-	0.5	**0.5**	-	-	0.1	**0.1**
From stage 2 to stage 3	-	(0.1)	0.8	**0.7**	-	(0.1)	0.2	**0.1**
Transfers due to decreased credit risk:								
From stage 2 to stage 1	0.1	(0.3)	-	**(0.2)**	-	-	-	**-**
From stage 3 to stage 2	-	-	(0.2)	**(0.2)**	-	-	-	**-**
Remeasurement of expected credit losses with no stage transfer	0.4	0.5	0.5	**1.4**	0.2	0.1	0.2	**0.5**
Redemptions	(0.1)	-	(0.2)	**(0.3)**	-	-	(0.1)	**(0.1)**
Amounts written off	-	-	(2.5)	**(2.5)**	-	-	(0.4)	**(0.4)**
Other movements	0.1	-	-	**0.1**	-	-	-	**-**
Overlays in respect of payment holidays	-	1.0	-	**1.0**	-	0.8	-	**0.8**
At 31 March 2020	**1.1**	**2.7**	**3.2**	**7.0**	**0.3**	**1.2**	**0.9**	**2.4**

	Group				Society			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Expected credit loss provision								
At 1 April 2018	0.6	2.5	4.7	7.8	-	0.5	1.0	1.5
Transfers due to increased credit risk:								
From stage 1 to stage 2	-	0.4	-	0.4	-	0.1	-	0.1
From stage 1 to stage 3	(0.1)	-	0.5	0.4	-	-	0.2	0.2
From stage 2 to stage 3	-	(0.3)	1.0	0.7	-	(0.1)	0.2	0.1
Transfers due to decreased credit risk:								
From stage 2 to stage 1	0.1	(0.7)	-	(0.6)	-	(0.1)	-	(0.1)
From stage 3 to stage 2	-	0.1	(0.5)	(0.4)	-	-	-	-
Remeasurement of expected credit losses with no stage transfer	0.2	(0.6)	2.6	2.2	0.1	(0.1)	0.5	0.5
Redemptions	(0.1)	(0.3)	(0.2)	(0.6)	-	(0.1)	(0.1)	(0.2)
Amounts written off	(0.1)	-	(3.7)	(3.8)	-	-	(0.9)	(0.9)
Other movements	-	-	(0.1)	(0.1)	-	-	-	-
At 31 March 2019	0.6	1.1	4.3	6.0	0.1	0.2	0.9	1.2

33. Credit risk (continued)

(iii) Geographical analysis
The table below shows the geographic spread of the residential loan portfolio at the year end date:

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
East Anglia	**117.7**	125.9	**80.2**	86.2
East Midlands	**452.9**	457.4	**346.2**	339.4
Greater London	**478.6**	498.0	**229.8**	239.7
Northern Ireland	**3.7**	4.1	**0.5**	0.6
North	**187.3**	190.5	**138.2**	138.9
North West	**531.6**	536.9	**387.9**	384.8
Scotland	**89.6**	96.5	**23.4**	26.8
South East	**720.4**	714.1	**501.1**	481.9
South West	**363.3**	361.6	**271.7**	260.8
Wales	**219.7**	216.4	**163.3**	155.8
West Midlands	**725.0**	730.2	**610.4**	608.9
Yorkshire	**448.2**	432.2	**346.9**	324.5
	4,338.0	4,363.8	**3,099.6**	3,048.3

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

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
>95%	**41.6**	57.9	**34.1**	48.9
91% - 95%	**176.0**	169.9	**167.3**	160.5
86% - 90%	**251.9**	344.3	**234.7**	304.0
76% - 85%	**655.6**	713.0	**524.7**	480.1
51% - 75%	**2,024.2**	2,003.6	**1,274.7**	1,292.8
<51%	**1,188.7**	1,075.1	**864.1**	762.0
	4,338.0	4,363.8	**3,099.6**	3,048.3

The Group's average indexed loan to value at the year end date is 53.8% (2018/19: 56.4%), calculated as a simple average across all residential loans.

The following table indicates collateral held against residential loans and advances to customers by IFRS 9 stage:

Fair value of collateral held	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Stage 1	**7,870.2**	7,510.3	**5,800.3**	4,860.3
Stage 2	**799.3**	822.1	**472.2**	442.2
Stage 3	**126.5**	128.2	**56.7**	59.4
	8,796.0	8,460.6	**6,329.2**	5,361.9

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

(v) Forbearance

A range of forbearance strategies is employed in order to work with borrowers to control arrears and, wherever possible, avoid repossession. These are set out in the relevant Group policies. The agreed strategy will reflect the customer's individual circumstances, appropriately taking any disclosed vunerabilities into consideration, and will be used in line with industry guidance. Forbearance arrangements include extended payment terms, a reduction in interest or principal repayments, and approved external debt management plans.

In response to the COVID-19 outbreak, the Society offered borrowers who were suffering a detrimental impact on their income as a direct consequence of the situation, the opportunity to request a payment holiday. The first tranche of such requests was received in the last couple of weeks of the financial year. As at 31 March 2020, payment holidays had been applied to over 2,600 residential mortgages equivalent to circa 7% of residential balances. These arrangements did not result in the loans being categorised as forborne for reporting purposes. An overlay of £1.0m was recorded in respect of these accounts.

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

Group	Arrangements 2020 £m	Concessions 2020 £m	Capitalisation 2020 £m	Term extensions 2020 £m	Total 2020 £m
Not past due	3.2	0.5	1.3	0.8	**5.8**
Past due 1 to 3 months	2.1	0.5	0.1	-	**2.7**
Past due 3 to 6 months	1.0	-	-	0.1	**1.1**
Past due 6 to 12 months	1.2	0.1	-	-	**1.3**
Past due over 12 months	0.4	0.1	-	-	**0.5**
	7.9	**1.2**	**1.4**	**0.9**	**11.4**

Group	Arrangements 2019 £m	Concessions 2019 £m	Capitalisation 2019 £m	Term extensions 2019 £m	Total 2019 £m
Not past due	1.2	0.8	0.9	20.7	23.6
Past due 1 to 3 months	1.9	0.5	-	0.2	2.6
Past due 3 to 6 months	2.9	0.3	-	0.1	3.3
Past due 6 to 12 months	0.5	-	-	-	0.5
Past due over 12 months	0.7	0.1	-	-	0.8
	7.2	1.7	0.9	21.0	30.8

(c) Commercial assets

Commercial assets comprise a closed portfolio of non-core commercial loans which is analysed in the table below.

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Concentration by loan type				
Loans secured on commercial property	**373.3**	394.9	**15.0**	12.2
Loans secured on residential property	**16.5**	19.4	**15.4**	18.2
Gross balances	**389.8**	414.3	**30.4**	30.4
Fair value adjustments	**27.4**	30.0	**3.2**	3.9
Gross exposures	**417.2**	444.3	**33.6**	34.3
Impairment provisions	**(81.8)**	(70.7)	**-**	-
	335.4	373.6	**33.6**	34.3

Of the Group fair value adjustments, £25.8m (2018/19: £27.6m) relate to loans secured on commercial property and £1.6m (2018/19: £2.4m) relate to loans secured on residential property. Of the Society fair value adjustments, £1.6m (2018/19: £1.5m) relates to loans secured on commercial property and £1.6m (2018/19: £2.4m) relates to loans secured on residential property.

33. Credit risk (continued)

(i) Credit quality

The internal credit risk grading approach for the closed commercial loan book does not use scorecards or probability of default calculations. Instead loans are individually assessed against a series of prescriptive and judgmental criteria, by subject matter experts following a clearly defined methodology, to arrive at a risk grade. The distribution of the portfolio by grade and IFRS 9 stage at 31 March is set out in the table below.

At 31 March 2020

	Group				Society
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**
Strong	42.4	-	-	**42.4**	33.6
Good	17.0	-	-	**17.0**	-
Satisfactory	0.1	24.1	-	**24.2**	-
Weak	-	79.5	-	**79.5**	-
Default:					
In LPA receivership	-	-	254.1	**254.1**	-
	59.5	**103.6**	**254.1**	**417.2**	**33.6**

At 31 March 2019

	Group				Society
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m
Strong	45.3	-	-	45.3	34.3
Good	28.6	-	-	28.6	-
Satisfactory	0.2	133.1	-	133.3	-
Default:					
In LPA receivership	-	-	236.0	236.0	-
Other default	-	-	1.1	1.1	-
	74.1	133.1	237.1	444.3	34.3

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

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
Not past due	**318.5**	328.3	**33.6**	34.3
Past due up to 3 months	**3.3**	11.5	**-**	-
Past due 3 to 6 months	**-**	-	**-**	-
Past due 6 to 12 months	**15.2**	32.9	**-**	-
Past due over 12 months	**80.2**	71.6	**-**	-
	417.2	444.3	**33.6**	34.3

(ii) Expected credit losses

The table below illustrates the IFRS 9 staging distribution of commercial loans and advances to customers and related expected credit loss provisions at the year end. Stage 2 loans have been further analysed to show those which are more than 30 days past due, the IFRS 9 backstop for identifying a significant increase in credit risk (SICR), and those which meet other SICR criteria as detailed in note 1 to the accounts.

At 31 March 2020

	Group			Society		
	Gross exposure £m	**Expected credit loss provision £m**	**Provision coverage %**	**Gross exposure £m**	**Expected credit loss provision £m**	**Provision coverage %**
Commercial loans						
Stage 1	**59.5**	**-**	**0.00%**	**33.6**	**-**	**0.00%**
Stage 2						
> 30 days past due	**-**	**-**	**-**	**-**	**-**	**-**
Other SICR indicators	**103.6**	**9.3**	**8.98%**	**-**	**-**	**-**
Stage 3	**254.1**	**72.5**	**28.53%**	**-**	**-**	**-**
	417.2	**81.8**	**19.61%**	**33.6**	**-**	**0.00%**

At 31 March 2019

	Group			Society		
	Gross exposure £m	Expected credit loss provision £m	Provision coverage %	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans						
Stage 1	74.1	0.3	0.42%	34.3	-	0.00%
Stage 2						
> 30 days past due	11.5	0.3	2.74%	-	-	-
Other SICR indicators	121.6	8.5	6.94%	-	-	-
Stage 3	237.1	61.6	25.99%	-	-	-
	444.3	70.7	15.91%	34.3	-	0.00%

For the purposes of the disclosure above, gross exposures and expected credit loss provisions are rounded to the nearest £0.1m whereas the provision coverage percentages are based on the underlying data prior to rounding.

33. Credit risk (continued)

The tables below analyse the movement in gross commercial exposures and the related expected credit loss allowances at 31 March:

Gross exposure	Group				Society
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**
At 1 April 2019	74.1	133.1	237.1	**444.3**	34.3
Transfers due to increased credit risk:					
From stage 1 to stage 2	(11.0)	11.0	-	**-**	-
From stage 2 to stage 3	-	(33.8)	33.8	**-**	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	3.6	(3.6)	-	**-**	-
From stage 3 to stage 2	-	-	-	**-**	-
Net redemptions, repayments and fair value adjustments for hedged risk	(7.2)	(3.1)	(10.1)	**(20.4)**	(0.8)
Amounts written off	-	-	(7.8)	**(7.8)**	-
Other movements	-	-	1.1	**1.1**	0.1
At 31 March 2020	59.5	103.6	254.1	**417.2**	33.6

Gross exposure	Group				Society
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m
At 1 April 2018	76.6	118.0	293.4	488.0	35.0
Transfers due to increased credit risk:					
From stage 1 to stage 2	(2.0)	2.0	-	-	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	9.1	(9.1)	-	-	-
From stage 3 to stage 2	-	26.1	(26.1)	-	-
Net redemptions, repayments and fair value adjustments for hedged risk	(9.6)	(3.4)	(22.3)	(35.3)	(0.7)
Amounts written off	-	(0.5)	(6.8)	(7.3)	-
Other movements	-	-	(1.1)	(1.1)	-
At 31 March 2019	74.1	133.1	237.1	444.3	34.3

	Group				Society
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**
Expected credit loss allowance					
At 1 April 2019	0.3	8.8	61.6	**70.7**	-
Transfers due to increased credit risk:					
From stage 1 to stage 2	(0.3)	0.4	-	**0.1**	-
From stage 2 to stage 3	-	(2.7)	2.6	**(0.1)**	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	-	-	-	**-**	-
From stage 3 to stage 2	-	-	-	**-**	-
Remeasurement of expected credit losses with no stage transfer	-	2.8	16.9	**19.7**	-
Redemptions	-	-	(0.8)	**(0.8)**	-
Amounts written off	-	-	(7.8)	**(7.8)**	-
At 31 March 2020	-	9.3	72.5	**81.8**	-

	Group				Society
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m
Expected credit loss allowance					
At 1 April 2018	0.1	11.8	62.5	74.4	-
Transfers due to increased credit risk:					
From stage 1 to stage 2	(0.1)	0.1	-	-	-
Transfers due to decreased credit risk:					
From stage 2 to stage 1	0.3	(0.2)	-	0.1	-
From stage 3 to stage 2	-	2.3	(2.6)	(0.3)	-
Remeasurement of expected credit losses with no stage transfer	-	(4.7)	8.7	4.0	-
Redemptions	-	-	(0.2)	(0.2)	-
Amounts written off	-	(0.5)	(6.8)	(7.3)	-
At 31 March 2019	0.3	8.8	61.6	70.7	-

(iii) Industry analysis of commercial loans
The analysis of commercial loans by industry type is as follows:

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
Healthcare and leisure	**120.2**	125.9	**-**	-
Industrial and warehouse	**10.8**	13.8	**3.0**	3.7
Office	**24.6**	24.8	**4.0**	3.3
Retail	**243.4**	257.8	**9.7**	6.7
Residential	**18.1**	21.8	**16.9**	20.6
Other	**0.1**	0.2	**-**	-
	417.2	444.3	**33.6**	34.3

33. Credit risk (continued)

(iv) Geographical analysis

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

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
East Anglia	19.5	17.0	3.2	0.4
East Midlands	27.5	28.4	1.0	1.3
Greater London	38.2	41.6	20.3	22.9
North	38.2	40.5	-	-
North West	137.1	146.7	3.0	3.4
Scotland	0.9	1.1	0.5	0.5
South East	57.8	62.3	1.0	1.1
South West	12.3	16.9	0.1	0.2
Wales	4.1	4.5	0.7	0.8
West Midlands	40.1	42.2	-	-
Yorkshire	41.5	43.1	3.8	3.7
	417.2	444.3	33.6	34.3

(v) Collateral

The Group's average indexed loan to value at the year end date is 95.0% (2018/19: 81.5%), calculated as a simple average across all commercial loans.

The following table indicates collateral held against commercial loans and advances to customers by IFRS 9 stage at 31 March:

Group **Value of collateral held**	Indexed 2020 £m	Unindexed 2020 £m	Indexed 2019 £m	Unindexed 2019 £m
Stage 1	181.0	171.5	190.4	176.5
Stage 2	92.3	88.5	111.5	100.4
Stage 3	145.4	158.0	153.2	150.6
	418.7	418.0	455.1	427.5

Society **Value of collateral held**	Indexed 2020 £m	Unindexed 2020 £m	Indexed 2019 £m	Unindexed 2019 £m
Stage 1	115.6	116.7	106.3	104.7
Not impaired	-	-	-	-

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

(vi) Forbearance

Certain forbearance activities are applied on a small number of commercial mortgages. Loans that have been restructured (generally via a term extension) and would otherwise have been past due or impaired are classified as renegotiated. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans on the basis of new contractual terms following renegotiation.

The analysis below sets out the commercial mortgage gross exposures with evidence of forbearance and renegotiated terms at the year end date.

Group	**Arrangements 2020 £m**	**Capitalisation 2020 £m**	**Term extensions 2020 £m**	**Total 2020 £m**
Not past due	15.7	11.2	-	**26.9**
Past due 6 to 12 months	5.0	-	-	**5.0**
Past due over 12 months	3.8	-	-	**3.8**
	24.5	**11.2**	**-**	**35.7**

Group	Arrangements 2019 £m	Capitalisation 2019 £m	Term extensions 2019 £m	Total 2019 £m
Not past due	4.6	11.4	2.8	18.8
Past due up to 3 months	11.5	-	-	11.5
Past due 6 to 12 months	5.0	-	-	5.0
Past due over 12 months	3.9	-	-	3.9
	25.0	11.4	2.8	39.2

(d) Loans and advances to credit institutions and investment securities

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

At 31 March 2020, the Group and Society's loans and advances to credit institutions and investment securities held at amortised cost or FVOCI were all categorised as stage 1 and the associated ECLs were negligible. At the reporting date, 100% (2018/19: 100.0%) of the Group's treasury assets were invested in or deposited with counterparties rated single A or better or classified as a Global Systemically Important Counterparty (GSIC).

The tables below show the relative concentrations of the Group's treasury investment portfolio, all of which are denominated in sterling:

	Group 2020 £m	Group 2019 £m	**Society 2020 £m**	Society 2019 £m
Concentration by credit grading				
AAA	**202.9**	306.1	**202.9**	306.1
AA+ to AA-	**330.2**	254.7	**328.4**	228.6
A+ to A-	**138.3**	34.2	**95.1**	12.6
BBB+	**-**	3.5	**-**	3.5
Other	**1.0**	-	**580.4**	624.9
	672.4	598.5	**1,206.8**	1,175.7
Concentration by sector				
Financial institutions	**123.6**	109.8	**78.6**	62.1
Asset backed securities	**229.8**	215.0	**809.2**	839.9
Supranational institutions	**55.5**	71.2	**55.5**	71.2
Sovereign	**263.5**	202.5	**263.5**	202.5
	672.4	598.5	**1,206.8**	1,175.7
Concentration by region				
UK	**598.1**	488.8	**1,148.4**	1,103.8
Europe (excluding UK)	**2.5**	24.5	**2.5**	0.6
North America	**16.3**	14.0	**0.4**	0.1
Supranational	**55.5**	71.2	**55.5**	71.2
	672.4	598.5	**1,206.8**	1,175.7

34. Market risk

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

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

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

The Group's use of derivative financial instruments to manage interest rate risk is explained in note 12 to the accounts.

Interest rate risk

The Group's exposure to interest rate risk is reported against target operating ranges set by ALCo, which themselves fall within Board Policy limits. The effect upon the Group's current and forecast net market value of assets and liabilities is determined for parallel yield curve shifts in the range +2% to -2%, subject to a floor at 0%, and for a variety of stressed non-parallel yield curve shifts, including negative rates. The impact upon net interest income is also assessed for rate movements using the same parallel and non-parallel stress rates, including convergent and divergent Bank Rate and LIBOR paths. Parallel negative shifts applied to rate sensitive balance sheet items are floored such that Bank Rate does not go below zero, however sensitivities to negative Bank Rate scenarios are also monitored.

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

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

The levels of Group pre-tax interest rate risk exposures to a +/-2% parallel shift, subject to the aforementioned floors, through the reporting period were as follows:

	At 31 March 2020 £m	**Average 2020 £m**	**High 2020 £m**	**Low 2020 £m**
Market value	**(0.8)**	(2.0)	(3.7)	(0.8)
Net interest income	**(2.8)**	(2.1)	(2.8)	(1.5)

The Group's gap and basis mismatch positions are reported quarterly to the Prudential Regulation Authority (PRA). The Society also employs Economic Value of Equity measures in line with European Banking Authority (EBA) requirements. The Society's internal limits framework ensures that Interest Rate Risk in the Banking Book is controlled at much lower exposures than would trigger a notification to the PRA under the established EBA reporting triggers.

35. Liquidity risk

The Society's principal purpose is to make loans secured by way of mortgage on residential property funded substantially by short-term savings from its members.

The contractual maturity of the mortgages is typically up to 25 years although loans are often repaid early due to borrowers moving house or remortgaging. In contrast, the majority of members' savings are available on demand or at short notice. It is this inherent mismatch between the maturity profile of mortgage lending and the easy accessibility of savings that creates liquidity risk.

The Group's exposure to liquidity risk is governed by the Liquidity and Funding Policy sections of the Board approved Treasury and Financial Risk Management Policy.

The Liquidity and Funding limits are designed to ensure that adequate liquid assets are held to cover statutory, regulatory and operational cash requirements in both business-as-usual and stressed environments.

The Group's liquidity risk is managed as follows:

- The Board has delegated authority for the management of liquidity risk to the Assets & Liabilities Committee (ALCo) within risk tolerances set out in the Treasury and Financial Risk Management Policy. ALCo meets monthly;
- Operational management of liquidity risk is further delegated to the Liquidity Management Committee (LMC). LMC meets regularly (typically weekly) to agree, based upon detailed customer behavioural analysis, the amount of funding required to maintain the adequacy of Group liquidity over horizons of up to three months. LMC plans cash requirements at a higher level over an extended rolling 12 month plan period;
- LMC also considers a series of daily, weekly and monthly stress tests which are designed to ensure that the Group maintains sufficient liquidity to meet its cash flow needs under any of a number of adverse scenarios. These scenarios simulate both Group specific, general market and combined events including severe savings outflows and the unavailability of wholesale funding; and
- Under the Prudential Regulation Authority's liquidity regime, the Group holds sufficient high quality liquid assets, such as government securities, supranational bonds, covered bonds and cash deposited with the Bank of England, to ensure that it can meet its liabilities over a 30 day period under stressed conditions. This is known as its Liquidity Coverage Ratio (LCR). The Group holds high quality liquidity above that required by the LCR in accordance with its own day-to-day assessment of liquidity adequacy. This includes stress testing over a number of horizons, including survival days' assessment out to 90 days.

The Overall Liquidity Adequacy Rule (OLAR) states that a regulated firm must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. There are three measures that the Group considers key to meeting the OLAR:

There are three measures that the Group considers key to monitoring its liquidity position:

- Liquidity ratios - the amount of liquidity necessary to meet its LCR, NSFR and to maintain overall liquidity adequacy is assessed daily;
- Liquidity stress tests - adequacy of Group liquidity under a number of different stress scenarios is modelled and maintained within the Board's liquidity risk tolerance; and
- Refinancing gaps - the level of wholesale and combined retail/wholesale funding permitted to mature over given time periods is subject to Board approved limits.

Further details of liquidity management are contained within the Risk Management Report on pages 33 to 39.

The table below analyses the Group's assets and liabilities across maturity periods that reflect the residual maturity from the year end date to the contractual maturity date. The Group's liquidity management processes consider the actual repayment profiles of financial assets and liabilities which are likely to be significantly different to that shown in the analysis.

At 31 March 2020

Group	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	252.2	-	-	-	-	11.3	**263.5**
Loans and advances to credit institutions	63.4	60.2	-	-	-	-	**123.6**
Investment securities	-	35.1	-	169.9	80.3	-	**285.3**
Derivative financial instruments	-	-	-	4.5	-	-	**4.5**
Loans and advances to customers	-	248.5	35.4	315.2	4,163.7	(71.2)	**4,691.6**
Total financial assets	**315.6**	**343.8**	**35.4**	**489.6**	**4,244.0**	**(59.9)**	**5,368.5**
Financial liabilities							
Shares	3,228.9	127.5	272.6	217.1	-	-	**3,846.1**
Amounts due to credit institutions	-	142.9	479.0	261.9	-	-	**883.8**
Amounts due to other customers	3.4	41.2	43.5	2.0	4.5	-	**94.6**
Derivative financial instruments	0.9	0.2	1.3	28.2	23.6	-	**54.2**
Debt securities in issue	-	-	1.0	265.3	-	-	**266.3**
Subordinated liabilities	-	-	-	-	22.8	-	**22.8**
Total financial liabilities	**3,233.2**	**311.8**	**797.4**	**774.5**	**50.9**	**-**	**5,167.8**

35. Liquidity risk (continued)

At 31 March 2019*

Group	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	172.0	-	-	-	-	10.5	182.5
Loans and advances to credit institutions	58.6	48.1	-	-	-	-	106.7
Investment securities	-	43.8	41.3	153.1	71.1	-	309.3
Derivative financial instruments	-	-	0.4	5.9	0.2	-	6.5
Loans and advances to customers	-	210.1	68.6	310.4	4,224.3	(68.0)	4,745.4
Total financial assets	230.6	302.0	110.3	469.4	4,295.6	(57.5)	5,350.4
Financial liabilities							
Shares	3,313.8	121.3	300.3	253.1	2.7	-	3,991.2
Amounts due to credit institutions	-	112.9	93.2	461.2	-	-	667.3
Amounts due to other customers	4.5	45.4	27.8	-	-	-	77.7
Derivative financial instruments	-	0.2	0.1	12.7	26.3	-	39.3
Debt securities in issue	-	-	1.0	-	343.1	-	344.1
Subordinated liabilities	-	-	-	-	22.8	-	22.8
Total financial liabilities	3,318.3	279.8	422.4	727.0	394.9	-	5,142.4

*2019 loans and advances to customers have been restated as explained in note 43.

At 31 March 2020

Society	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	252.2	-	-	-	-	11.3	**263.5**
Loans and advances to credit institutions	18.4	60.2	-	-	-	-	**78.6**
Investment securities	-	35.1	-	203.0	626.6	-	**864.7**
Derivative financial instruments	-	-	-	4.5	-	-	**4.5**
Loans and advances to customers	-	6.4	12.5	136.7	2,983.5	16.8	**3,155.9**
Investments: loans in subsidiary undertakings	-	-	-	-	-	1,136.2	**1,136.2**
Total financial assets	**270.6**	**101.7**	**12.5**	**344.2**	**3,610.1**	**1,164.3**	**5,503.4**
Financial liabilities							
Shares	3,228.9	127.5	272.6	217.1	-	-	**3,846.1**
Amounts due to credit institutions	-	142.9	479.0	236.9	-	-	**858.8**
Amounts due to other customers	3.4	33.6	43.2	1.4	306.3	-	**387.9**
Derivative financial instruments	0.9	0.2	1.3	25.7	23.5	-	**51.6**
Debt securities in issue	-	-	1.0	-	-	-	**1.0**
Subordinated liabilities	-	-	-	-	22.8	-	**22.8**
Total financial liabilities	**3,233.2**	**304.2**	**797.1**	**481.1**	**352.6**	**-**	**5,168.2**

35. Liquidity risk (continued)

At 31 March 2019*

Society	Repayable on demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specific maturity £m	Total £m
Financial assets							
Cash and balances with the Bank of England	172.0	-	-	-	-	10.5	182.5
Loans and advances to credit institutions	10.9	48.1	-	-	-	-	59.0
Investment securities	-	43.8	41.3	153.1	696.0	-	934.2
Derivative financial instruments	-	-	0.4	5.3	0.2	-	5.9
Loans and advances to customers	-	6.2	6.7	109.3	2,965.5	7.7	3,095.4
Investments: loans in subsidiary undertakings	-	-	-	-	-	1,215.2	1,215.2
Total financial assets	182.9	98.1	48.4	267.7	3,661.7	1,233.4	5,492.2
Financial liabilities							
Shares	3,313.8	121.3	300.3	253.1	2.7	-	3,991.2
Amounts due to credit institutions	-	112.9	93.2	461.2	-	-	667.3
Amounts due to other customers	4.5	45.4	27.8	1.0	336.9	-	415.6
Derivative financial instruments	-	0.2	0.1	12.7	22.5	-	35.5
Debt securities in issue	-	-	1.0	-	-	-	1.0
Subordinated liabilities	-	-	-	-	22.8	-	22.8
	3,318.3	279.8	422.4	728.0	384.9	-	5,133.4

*2019 loans and advances to customers have been restated as explained in note 43.

The significant development of liquidity stress testing and forecast models has continued throughout 2020 due to economic and market conditions. A wide range of scenarios is considered including mild and severe stresses, credit downgrades and a total closure of the wholesale market. An analysis of the liquidity portfolio is set out in the table below:

Group	2020 £m	2020 %	2019 £m	2019 %
Cash in hand and balances with the Bank of England	**263.5**	**39.1**	182.5	30.5
Cash with banks and building societies	**123.6**	**18.4**	106.7	17.8
Fixed rate bonds	**-**	**-**	23.1	3.9
Floating rate notes	**55.5**	**8.3**	71.2	11.9
Covered bonds	**149.4**	**22.2**	143.9	24.0
Residential mortgage backed securities	**80.4**	**12.0**	71.1	11.9
Total	**672.4**	**100.0**	598.5	100.0

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

At 31 March 2020

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,233.6	297.2	323.1	-	**3,853.9**
Amounts due to credit institutions and other customers	178.9	516.1	263.2	-	**958.2**
Derivative financial instruments	3.4	10.1	35.9	10.4	**59.8**
Debt securities in issue	0.6	2.4	266.8	-	**269.8**
Subordinated liabilities	-	2.5	9.9	57.0	**69.4**
	3,416.5	**828.3**	**898.9**	**67.4**	**5,211.1**

At 31 March 2019

Group	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,418.4	304.0	278.1	2.1	4,002.6
Amounts due to credit institutions and other customers	152.9	121.4	499.7	-	774.0
Derivative financial instruments	4.9	15.4	56.6	12.5	89.4
Debt securities in issue	1.3	4.8	333.3	68.6	408.0
Subordinated liabilities	-	2.5	10.0	60.2	72.7
	3,577.5	448.1	1,177.7	143.4	5,346.7

35. Liquidity risk (continued)

At 31 March 2020

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,233.6	297.2	323.1	-	**3,853.9**
Amounts due to credit institutions and other customers	178.9	516.1	263.2	-	**958.2**
Derivative financial instruments	3.1	9.3	34.8	9.6	**56.8**
Debt securities in issue	-	1.0	-	-	**1.0**
Subordinated liabilities	-	2.5	9.9	57.0	**69.4**
	3,415.6	**826.1**	**631.0**	**66.6**	**4,939.3**

At 31 March 2019

Society	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Liabilities					
Shares	3,418.4	304.0	278.1	2.1	4,002.6
Amounts due to credit institutions and other customers	152.9	121.4	499.7	-	774.0
Derivative financial instruments	3.8	12.0	43.5	11.2	70.5
Debt securities in issue	-	1.0	-	-	1.0
Subordinated liabilities	-	2.5	10.0	60.2	72.7
	3,575.1	440.9	831.3	73.5	4,920.8

For each material class of financial liability a maturity analysis is provided on pages 137 to 140.

36. Financial commitments

The Group and Society's leasing commitments are now all in scope of IFRS 16 'Leases', which was adopted from 1 April 2019, as explained in note 1. Operating lease committments are now presented on the Statement of Financial Position as lease liabilities within trade and other payables, which is further disclosed in note 24.

The maturity analysis of lease liablities is analysed in the table shown below:

	Group 2020 £m	Group 2019* £m	Society 2020 £m	Society 2019* £m
a) Leasing commitments				
Less than three months	**0.1**	0.1	**0.1**	0.1
Greater than three months and less than one year	**0.3**	0.4	**0.3**	0.4
Between one and five years	**1.5**	1.3	**1.5**	1.3
After five years	**0.9**	-	**0.9**	-
	2.8	1.8	**2.8**	1.8

* 2019 comparatives remains under IAS 17 and only includes future minimum lease payments under non-cancellable operating leases relating to land and buildings.

The Society earns rental income on subletting parts of eight of its freehold branches to residential and commercial tenants. The income received from this is negligible and is regarded as rental income.

b) Loan commitments				
Undrawn loan facilities	**191.1**	75.7	**175.9**	66.3
c) Capital commitments				
Capital expenditure contracted but not yet provided for in the accounts	**0.5**	-	**0.5**	-

37. Related party transactions

i) Subsidiary, parent and ultimate controlling party

The Group is controlled by West Bromwich Building Society which is considered to be the ultimate parent undertaking. The subsidiaries of the Society are detailed in note 15. The Group's registered office and principal place of business is 2 Providence Place, West Bromwich, B70 8AF.

ii) Key management personnel

The Board considers key management personnel to comprise Executive and Non-Executive Directors. Details of Directors' emoluments are disclosed in note 8.

iii) Transactions with key management personnel and their close family members

The table below shows outstanding balances and transactions with key management personnel, which comprises Group Directors, and their close family members:

Group and Society	No. of key management personnel 2020	Amount in respect of key management personnel and their close family members 2020 £000	No. of key management personnel 2019	Amount in respect of key management personnel and their close family members 2019 £000
Savings balances at 31 March	8	126	10	144
Interest payable on savings balances	8	1	10	1

Mortgage loans and savings are available to key management personnel and members of their close family at normal commercial terms. At 31 March 2020, there was 1 mortgage loan outstanding to Directors and their connected persons of £0.7m (2018/19: nil).

A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and Directors of the Society or persons connected with Directors of the Society. The register will be available for inspection by members at the Annual General Meeting and during normal office hours at the Society's Principal Office (2 Providence Place, West Bromwich) during the period 15 days prior to the meeting.

iv) Contributions to pension schemes

During the year the Group paid contributions of £3.4m (2018/19: £3.4m) to defined benefit pension schemes, which are classified as related parties.

As part of the ongoing funding agreement for the West Bromwich Building Society Staff Retirement Scheme (the SRS), the Trustees of the SRS have been granted a charge over the Society's Head Office, which may be exercised only in the event of the Society defaulting on its pension obligations and in such circumstances assigns the rights of ownership of the building to the SRS.

v) Transactions with subsidiary companies

	Interest paid to Society 2020 £m	Interest paid to Society 2019 £m
Insignia Finance Limited	0.3	0.3
West Bromwich Commercial Limited	11.6	11.7
West Bromwich Homes Limited	2.9	2.9
West Bromwich Mortgage Company Limited	16.2	17.2
	31.0	32.1

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

	Loans owed by subsidiaries 2020 £m	Loans owed by subsidiaries 2019 £m
Insignia Finance Limited	7.3	10.1
West Bromwich Commercial Limited	352.1	364.1
West Bromwich Homes Limited	118.1	118.9
West Bromwich Mortgage Company Limited	658.7	722.1
	1,136.2	1,215.2

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

The loans owed by West Bromwich Commercial Limited are net of impairment provisions of £159.3m (2018/19: £128.5m).

38. Business segments

Operating segments are reported in accordance with the internal reporting provided to the Group Board (the chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group has three main business segments:

- Retail - incorporating residential lending, savings, investments and protection;
- Commercial real estate - primarily representing loans for commercial property investment; and
- Property - a portfolio of residential properties for rent.

Central Group operations have been included in Retail and comprise risk management, finance, treasury services, human resources and computer services, none of which constitute a separately reportable segment.

From 2018/19 onwards, the Group commenced responsible buy to let lending to limited companies which is reported within the Retail segment. The segment previously termed 'Commercial' is now reported as 'Commercial real estate'. There were no other changes to reportable segments during current or prior year.

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

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

The Group does not consider its operations to be cyclical or seasonal in nature.

Income Statements for the year ended 31 March 2020

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	124.1	10.5	-	(16.0)	**118.6**
On instruments measured at fair value through profit or loss	(4.4)	(0.1)	-	-	**(4.5)**
Total interest receivable and similar income	119.7	10.4	-	(16.0)	**114.1**
Interest expense and similar charges	(54.0)	(13.5)	(2.9)	15.4	**(55.0)**
Net interest receivable/(expense)	**65.7**	**(3.1)**	**(2.9)**	**(0.6)**	**59.1**
Fees and commissions receivable	2.3	-	-	-	**2.3**
Other operating income	-	-	4.0	-	**4.0**
Fair value losses on financial instruments	(3.7)	(4.1)	-	(0.7)	**(8.5)**
Gain on deconsolidation of commercial securitisations	-	5.3	-	-	**5.3**
Write down of goodwill	(0.5)	-	-	-	**(0.5)**
Total income	**63.8**	**(1.9)**	**1.1**	**(1.3)**	**61.7**
Administrative expenses	(37.5)	(0.4)	(0.3)	-	**(38.2)**
Depreciation and amortisation	(8.0)	-	-	-	**(8.0)**
Operating profit/(loss) before revaluation gains, impairment and provisions	**18.3**	**(2.3)**	**0.8**	**(1.3)**	**15.5**
Gains on investment properties	-	-	4.2	-	**4.2**
Impairment on loans and advances	(2.9)	(14.6)	-	-	**(17.5)**
Provisions for liabilities	(0.5)	(0.2)	-	-	**(0.7)**
Profit/(Loss) before tax	**14.9**	**(17.1)**	**5.0**	**(1.3)**	**1.5**

Statements of Financial Position at 31 March 2020

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	**5,539.7**	**343.6**	**141.5**	**(448.0)**	**5,576.8**
Total liabilities	**5,208.7**	**445.2**	**123.5**	**(584.4)**	**5,193.0**
Capital expenditure	**6.0**	**-**	**-**	**-**	**6.0**

Income Statements for the year ended 31 March 2019*

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	119.6	15.3	-	(16.4)	118.5
On instruments measured at fair value through profit or loss	(7.1)	0.2	-	-	(6.9)
Total interest receivable and similar income	112.5	15.5	-	(16.4)	111.6
Interest expense and similar charges	(52.0)	(14.6)	(2.9)	16.4	(53.1)
Net interest receivable/(expense)	60.5	0.9	(2.9)	-	58.5
Fees and commissions receivable	2.6	-	-	-	2.6
Other operating income	(0.1)	-	4.1	-	4.0
Fair value losses on financial instruments	(3.0)	(2.4)	-	(0.3)	(5.7)
Total income	60.0	(1.5)	1.2	(0.3)	59.4
Administrative expenses	(41.2)	(1.3)	(0.1)	-	(42.6)
Depreciation and amortisation	(6.9)	-	-	-	(6.9)
Operating profit/(loss) before revaluation gains, impairment and provisions	11.9	(2.8)	1.1	(0.3)	9.9
Gains on investment properties	-	-	2.6	-	2.6
Impairment on loans and advances	(1.2)	(1.8)	-	-	(3.0)
Provisions for liabilities	-	(0.3)	-	-	(0.3)
Profit/(Loss) before tax	10.7	(4.9)	3.7	(0.3)	9.2

Statements of Financial Position at 31 March 2019*

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Total assets	5,496.0	381.6	137.0	(462.0)	5,552.6
Total liabilities	5,139.7	472.5	123.1	(567.8)	5,167.5
Capital expenditure	6.3	-	-	-	6.3

*2019 fair value losses on financial instruments, total assets and total liabilities have been restated as explained in note 43.

39. Asset encumbrance

Certain financial assets have been utilised as collateral to support the wholesale funding initiatives of the Group. As the Group has retained substantially all of the risks and rewards of ownership, the assets remain on the Statement of Financial Position but are encumbered and cannot be utilised for other purposes.

As described in note 13, the Group has established a number of securitisation structures funded by the issue of mortgage backed securities (MBSs). Retained MBSs and designated mortgage loan pools may be pledged as collateral for participation in Bank of England funding schemes.

For liquidity management purposes, the Society also enters into sale and repurchase agreements whereby it sells investment securities to third parties with a commitment to repurchase them at a future date. The proceeds of the sale and repurchase agreements are included within amounts due to credit institutions.

An analysis of Group assets pledged at 31 March is set out below.

	Encumbered 2020	**Unencumbered 2020**	Encumbered 2019	Unencumbered 2019 Restated*
	£m	**£m**	£m	£m
Cash and balances at the Bank of England	**18.2**	**245.3**	29.9	152.6
Loans and advances to credit institutions	**-**	**123.6**	-	106.7
Investment securities	**1.1**	**284.2**	-	309.3
Derivative financial instruments	**-**	**4.5**	-	6.5
Loans and advances to customers	**1,494.5**	**3,197.1**	1,439.1	3,306.3
Other assets	**-**	**208.3**	-	202.2
	1,513.8	**4,063.0**	1,469.0	4,083.6

*2019 loans and advances to customers have been restated as explained in note 43.

In addition to the above, at 31 March 2020, Group loans and advances to credit institutions included £69.6m (2018/19: £48.1m) of collateral pledged against derivative financial instruments.

40. Country-by-country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

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

These consolidated financial statements of the West Bromwich Building Society Group (the Group) include the audited results of the Society, its subsidiary undertakings and a number of securitisation entities. The consolidated entities, their principal activities and countries of incorporation are detailed in note 15. All of the consolidated entities are incorporated in the UK, with the exception of Hawthorn Finance Limited which is incorporated in Jersey.

Basis of preparation

- The number of employees has been calculated as the average number of full and part-time employees, on a monthly basis, as disclosed in note 7.
- Turnover represents Group total income as disclosed in the Group Income Statement. Total income comprises net interest, fees and commissions receivable and other operating income, together with fair value gains/losses and net realised profits/losses on financial instruments.
- Pre-tax profit or loss represents the Group profit or loss before tax, as reported in the Group Income Statement.
- Corporation tax receipts/payments represent the amount of tax received/paid during the year, as disclosed in the Group Cash Flow Statement.
- Public subsidies received represent direct support by the government and exclude any central bank operations that are designed for financial stability purposes or operations that aim to facilitate the functioning of the monetary policy transmission mechanism.

	2020	2019*
Average number of Group employees, all of which employed in the UK	**677**	720
Arising in the UK:	**£m**	£m
Group total income	**61.7**	59.4
Group profit before tax	**1.5**	9.2
Group corporation tax payments	**1.1**	-
Public subsidies received by the Group	**-**	-

Hawthorn Finance Limited did not transact with entities outside the Group and had no employees (2018/19: nil).

*2019 Group profit before tax has been restated as explained in note 43.

41. Impact of adoption of IFRS 16 - Leases

IFRS 16 'Leases' was adopted by the Group from 1 April 2019 and replaces IAS 17 'Leases'. The standard amends the definition of a lease and sets out the principles for the recognition, measurement, presentation and disclosure of leases. As permitted by the new standard, the Group has implemented IFRS 16 using the 'modified retrospective' approach and recognised the cumulative impact of transition as an adjustment to 'general reserves' in the Statement of Financial Position at 1 April 2019. Therefore, the comparative information has not been restated and is presented, as previously reported, under IAS 17 and related interpretations.

Previously, under IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease', the Group had no finance leases but had operating lease arrangements for properties whereby lease rentals were expensed to the Income Statement and disclosed within administrative expenses. On adoption of IFRS 16 under the modified retrospective approach, these lease arrangements, where the Group is a lessee, have been brought onto the Statement of Financial Position. Lease liabilities, representing the obligation to make future lease payments, have been recognised within trade and other payables and initially measured at the present value of the remaining lease payments at 1 April 2019, discounted using the Group's incremental borrowing rate at that date. The incremental borrowing rate was determined with reference to pricing for securities with similar risk characteristics and terms to the leased assets. The leased assets, reported as right-of-use assets within property, plant and equipment, were initially measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued lease payments recognised at 31 March 2019.

Following transition, leases are identified in accordance with the definition set out in IFRS 16. Operating lease rental costs are replaced with depreciation charges on the right-of-use assets (presented within administrative expenses) and interest expense charged on lease liabilities (presented within interest expense and similar charges). During the year ended 31 March 2020, the adoption of IFRS 16 resulted in a £0.6m reduction in administrative expenses, offset by a £0.4m increase in depreciation and interest payable.

The Group has elected to apply the following practical expedients which are allowed on transition to IFRS 16:

- Contracts existing at 1 April 2019 have, without reassessment, been identified as leases only if previously classified as such under IAS 17.
- No right-of-use assets or lease liabilities have been recognised for leases of plant and equipment which are of low value or end within 12 months of the date of IFRS 16 adoption. For these leases, payments continue to be recognised as administrative expenses, on a straight line basis over the lease term.
- Reliance has been placed on previous assessments of whether leases are onerous as an alternative to performing an impairment review. As no provisions for onerous leases were required at 31 March 2019, there were no adjustments to right-of use assets in this respect.
- Initial direct costs have been excluded from the measurement of right-of-use assets at 1 April 2019.
- Where contracts contain termination or extension options, hindsight has been used to determine the lease term.

IFRS 16 adoption has not impacted the reporting of lease arrangements where the Group acts as lessor, with lessor accounting being substantially unchanged from that prescribed by IAS 17.

Financial impact of IFRS 16 adoption

The Group has a number of leased assets, primarily branch properties, that have been recognised as right-of-use assets under IFRS 16. The financial impact of adopting this standard is summarised in the table below.

Impact of IFRS 16 adoption on equity	Statement of Financial Position category	Increase/(Decrease) in general reserves 1 April 2019 £m
Recognition of right-of-use assets	Property, plant and equipment	2.6
Release of lease incentive accruals	Trade and other payables	0.2
Recognition of lease liabilities	Trade and other payables	(2.8)
Total	**General reserves**	**-**

A reconciliation between the operating lease commitments disclosed in the 2018/19 Annual Report and Accounts and the lease liability recognised at 1 April 2019 under IFRS 16 is set out in the table below.

	Notes	£m
Operating lease commitments disclosed at 31 March 2019		1.9
Operating leases commencing after 1 April 2019	(i)	(0.3)
Adjustments for future termination and extension options	(ii)	1.5
Impact of discounting	(iii)	(0.3)
Lease liability recognised at 1 April 2019		**2.8**

Notes

(i) Operating lease commitments disclosed at 31 March 2019 included lease agreements signed before the reporting date which did not commence until after 1 April 2019 and are therefore excluded from the lease liability recognised at 1 April 2019.

(ii) Operating lease commitments disclosed at 31 March 2019 represented the Group's minimum contractual commitments, assuming that termination options were exercised where this was possible at the discretion of the lessee. Under IFRS 16, the lease liability includes the Group's expected behaviour in respect of future termination and extension options.

(iii) The lease liability represents the value of future lease payments discounted at the Group's incremental borrowing rate (IBR) at 1 April 2019. The weighted average IBR on adoption of IFRS 16 was 2.6%, with the IBRs applied to individual leases ranging from 1.9% to 2.9% depending on the lease term.

42. Deconsolidation of securitisation entities

Management reassessed the accounting for certain securitisation arrangements, specifically those relating to Sandwell Commercial Finance No. 1 plc and Sandwell Commercial Finance No. 2 plc ('the entities'). The principal activities of the entities is that of holding non-core commercial mortgage portfolios. Previously, the entities were fully consolidated into the Group accounts.

In these entities the Society has limited exposure to credit losses, with risk transferred in part to third party investors who have purchased loan note securities issued by the entities. The Society's first loss exposure has been fully written down such that the Group is not exposed to further credit losses in these entities.

This resulted in a re-evaluation of IFRS 10 'Consolidated Financial Statements' criteria for consolidation of these entities. Management deemed that the Society is no longer exposed to variable returns from these entities as the credit enhancement features have been fully utilised and there is no realistic prospect of this reversing, or of any deferred consideration becoming receivable from the entities. As a result, the entities were deconsolidated with effect from 31 December 2019. The Group accounts therefore include the results of these entities up to 31 December 2019.

43. Prior year restatement

It was identified during the year that certain mortgages within the portfolio interest rate risk hedge had been valued, at 31 March 2019, with reference to SONIA. Although this was relevant to hedging instruments (SONIA linked interest rate swaps) within the portfolio, this did not correspond to the documented hedged risk for that portfolio (being fair value movements attributed to movements in LIBOR). The hedged items (mortgages) have been revalued in accordance with the documented hedged risk, resulting in adjustments to the prior year financial statements as outlined in the table overleaf. The cumulative fair value hedge adjustment will tend to nil over the remaining fixed term of the mortgages currently in the hedge, and it is anticipated that the charge recorded as a result of this adjustment will unwind over the remaining fixed term of the mortgages currently designated as hedged items, resulting in a corresponding credit to the Group (and Society) Income Statement.

The table below shows the effect of the retrospective restatement on the prior year Group and Society statements of financial position.

Statements of financial position

	Group			Society		
	As reported 31 March 2019 £m	Restatement £m	Restated 31 March 2019 £m	As reported 31 March 2019 £m	Restatement £m	Restated 31 March 2019 £m
Assets						
Cash and balances with the Bank of England	182.5	-	182.5	182.5	-	182.5
Loans and advances to credit institutions	106.7	-	106.7	59.0	-	59.0
Investment securities	309.3	-	309.3	934.2	-	934.2
Derivative financial instruments	6.5	-	6.5	5.9	-	5.9
Loans and advances to customers	4,746.7	(1.3)	4,745.4	3,096.7	(1.3)	3,095.4
Deferred tax assets	18.9	-	18.9	10.3	-	10.3
Trade and other receivables	3.7	-	3.7	3.6	-	3.6
Investments	-	-	-	1,215.8	-	1,215.8
Intangible assets	16.5	-	16.5	15.9	-	15.9
Investment properties	134.7	-	134.7	-	-	-
Property, plant and equipment	28.4	-	28.4	28.4	-	28.4
Total assets	5,553.9	(1.3)	5,552.6	5,552.3	(1.3)	5,551.0
Liabilities						
Shares	3,991.2	-	3,991.2	3,991.2	-	3,991.2
Amounts due to credit institutions	667.3	-	667.3	667.3	-	667.3
Amounts due to other customers	77.7	-	77.7	415.6	-	415.6
Derivative financial instruments	39.3	-	39.3	35.5	-	35.5
Debt securities in issue	344.1	-	344.1	1.0	-	1.0
Current tax liabilities	1.1	(0.2)	0.9	1.1	(0.2)	0.9
Deferred tax liabilities	5.8	-	5.8	1.6	-	1.6
Trade and other payables	12.1	-	12.1	10.5	-	10.5
Provisions for liabilities	1.4	-	1.4	0.9	-	0.9
Retirement benefit obligations	4.9	-	4.9	4.9	-	4.9
Subordinated liabilities	22.8	-	22.8	22.8	-	22.8
Total liabilities	5,167.7	(0.2)	5,167.5	5,152.4	(0.2)	5,152.2
Members' interests and equity						
Core capital deferred shares	127.0	-	127.0	127.0	-	127.0
Subscribed capital	8.9	-	8.9	8.9	-	8.9
General reserves	247.1	(1.1)	246.0	260.8	(1.1)	259.7
Revaluation reserve	3.3	-	3.3	3.3	-	3.3
Fair value reserve	(0.1)	-	(0.1)	(0.1)	-	(0.1)
Total members' interests and equity	386.2	(1.1)	385.1	399.9	(1.1)	398.8
Total members' interests, equity and liabilities	5,553.9	(1.3)	5,552.6	5,552.3	(1.3)	5,551.0

43. Prior year restatement (continued)

The table below shows the effect of the retrospective restatements on the Group and Society income statements for the year ended 31 March 2019.

Income Statements

	Group			Society		
	As reported 2019 £m	Restatement £m	Restated 2019 £m	As reported 2019 £m	Restatement £m	Restated 2019 £m
Interest receivable and similar income						
Calculated using the effective interest method	118.5	-	118.5	117.1	-	117.1
On instruments measured at fair value through profit or loss	(6.9)	-	(6.9)	(5.3)	-	(5.3)
Total interest receivable and similar income	111.6	-	111.6	111.8	-	111.8
Interest expense and similar charges	(53.1)	-	(53.1)	(53.6)	-	(53.6)
Net interest receivable	58.5	-	58.5	58.2	-	58.2
Fees and commissions receivable	2.6	-	2.6	3.1	-	3.1
Other operating income	4.0	-	4.0	(0.1)	-	(0.1)
Fair value losses on financial instruments	(4.4)	(1.3)	(5.7)	(6.4)	(1.3)	(7.7)
Total income	60.7	(1.3)	59.4	54.8	(1.3)	53.5
Administrative expenses	(42.6)	-	(42.6)	(39.5)	-	(39.5)
Depreciation and amortisation	(6.9)	-	(6.9)	(6.9)	-	(6.9)
Operating profit before revaluation gains, impairment and provisionsment and provisions	11.2	(1.3)	9.9	8.4	(1.3)	7.1
Gains on investment properties	2.6	-	2.6	-	-	-
Impairment on loans and advances	(3.0)	-	(3.0)	(0.1)	-	(0.1)
Provisions for liabilities	(0.3)	-	(0.3)	-	-	-
Provisions against investments in subsidiary undertakings	-	-	-	(5.5)	-	(5.5)
Profit before tax	10.5	(1.3)	9.2	2.8	(1.3)	1.5
Taxation	(1.4)	0.2	(1.2)	(0.7)	0.2	(0.5)
Profit for the financial year	9.1	(1.1)	8.0	2.1	(1.1)	1.0

Annual Business Statement

1. Statutory percentages

	2020 %	Statutory limit %
Lending limit	**7.7**	25.0
Funding limit	**20.3**	50.0

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

The lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group plus allowance for losses on loans and advances less liquid assets, investment properties, intangible assets and property, plant and equipment as shown in the Group Statement of Financial Position.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

Securitised assets and related liabilities are excluded from the lending limit and funding limit calculations in line with the Building Societies Act 1986 as updated by the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

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

2. Other percentages

	2020 %	2019* %
As a percentage of shares and borrowings:		
Gross capital	**7.99**	8.03
Free capital	**4.38**	4.49
Liquid assets	**13.21**	11.78
As a percentage of mean total assets:		
Profit for the financial year	**0.03**	0.14
Management expenses	**0.83**	0.87

The above percentages have been prepared from the Group's accounts and in particular:

- 'Shares and borrowings' represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, in each case including accrued interest.
- 'Gross capital' represents the aggregate of general reserves, revaluation reserve, fair value reserve, core capital deferred shares, subscribed capital and subordinated liabilities.
- 'Free capital' represents the aggregate of gross capital and collective impairment provisions for losses on loans and advances less intangible assets, investment properties and property, plant and equipment.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Liquid assets' represent the total of cash and balances with the Bank of England, loans and advances to credit institutions and investment securities.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

*2019 profit before tax and loans and advances to customers and reserves have been restated as explained in note 43, which has affected the prior year ratios.

Information relating to Directors' and Officers' other directorships and interests at 31 March 2020

Name, qualification and age	Role	Date of appointment	Other directorships and interests
Julie Hopes MBA, ACIB Age 52	Non-Executive Director	1 April 2016	Police Mutual Assurance Society SAGA Services Limited SAGA Plc
Victoria Mitchell Age 55	Non-Executive Director	1 April 2018	N Brown Group Plc Lookers Plc Lookers Motor Group Ltd
Mark Nicholls MA (Cantab), MBA Age 71	Chairman	1 January 2010	Rathbone Brothers Plc Rathbone Investment Management Ltd
Mark Preston BA (Hons), ACIB Age 60	Non-Executive Director	18 May 2011	Kensington Holdco Limited Kensington Mortgage Company Limited Daiwa Capital Markets Europe Ltd
Lynne Shamwana BA FCA Age 57	Non-Executive Director	1 February 2019	Virgin Care Corporate Services Ltd Virgin Care Provider Services Ltd Virgin Care Ltd VH Doctors Ltd Virgin Care Private Ltd Virgin Care Services Ltd 61 Queens Gardens (Freehold) Ltd Overs Farm Residents Company Ltd Virgin Healthcare Holdings Limited
James Turner FCA, FCSI, BA (Hons) Age 50	Non-Executive Director	1 April 2017	Prudential Plc
Ashraf Piranie FCCA, MBA Age 56	Group Finance & Operations Director	13 March 2017	Elite Star Investments Limited Osborne House Property Management Limited DPC (2011) Limited West Bromwich Mortgage Company Limited CL Mortgages Limited
Jonathan Westhoff BA (Hons) Financial Services, FCMA, CGMA, ACIB Age 55	Chief Executive	5 May 2009	West Bromwich Commercial Limited West Bromwich Homes Limited West Bromwich Mortgage Company Limited CL Mortgages Limited

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

Service contracts

The Society's policy in relation to the duration of contracts for the Executive Directors is that their contract would normally continue until termination by either party, subject to the required notice or until retirement. The service contract is terminable with 12 months' notice if given by the Society or six months' notice if given by the Director. Jonathan Westhoff entered into his contract as Chief Executive on 25 May 2011 and Ashraf Piranie entered into his service contract on 13 March 2017, on this basis.

For further details of the Executive Directors' service contracts, see the Directors' Remuneration Report on pages 53 to 61.

Documents may be served on any of the above named Directors at the following address: Addleshaw Goddard, 3 Sovereign Square, Sovereign Street, Leeds, LS1 4ER.

Senior management	Role	Group directorships
Andrea Hackett	Divisional Director, Operations	
Manjit Hayre	Chief Risk Officer	
Greg Johnson ACIB	Divisional Director, IT Service and Solutions	
Alex Pawley	Divisional Director, Treasury & Finance	White Label Lending Limited Insignia Finance Limited West Bromwich Mortgage Company Limited
John McErlean MIIA, FIIA	Divisional Director, Internal Audit	
Neil Noakes	Group Secretary	Insignia Finance Limited WBBS (SRS) Limited West Bromwich Homes Limited White Label Lending Limited
Carole Barlow BSc, FCIPD	Divisional Director, Human Resources	
James Wright BSc, ACIB, CIM Dip	Divisional Director, Sales & Marketing	

Glossary

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

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

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

Basel III – The Basel Committee on Banking Supervision's framework for strengthened global regulatory standards on bank capital adequacy and liquidity. The requirements, embedded using CRD IV, became effective from 1 January 2014.

Capital Requirements Regulation and Capital Requirements Directive IV (CRD IV) – CRD IV is the legislative package made up of the Capital Requirements Regulation and the Capital Requirements Directive to implement the Basel III agreement.

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

Commercial mortgage backed securities (CMBS) – Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).

Common Equity Tier 1 (CET 1) capital – CET 1 capital comprises internally generated capital from general reserves and other reserves less intangible assets, goodwill and other regulatory adjustments.

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

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

Core Capital Deferred Shares (CCDS) – A form of Common Equity Tier 1 (CET 1) capital issued by building societies.

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

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

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

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

Encumbered assets – Assets held on the Statement of Financial Position which have been used as security for funding or otherwise pledged.

Expected credit loss (ECL) – A term used in the calculation of impairment provisions under accounting standard IFRS 9 'Financial Instruments'. The ECL is the present value of all cash shortfalls over the expected life of a financial instrument.

Exposure at default (EAD) – An estimate of the outstanding balance on a financial asset at the time of default.

Fair value – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value through other comprehensive income (FVOCI) assets – Financial assets held at fair value in the Statement of Financial Position with changes in fair value being recognised through other comprehensive income.

Fair value through profit or loss (FVTPL) assets – Financial assets held at fair value in the Statement of Financial Position with changes in fair value being recognised through the Income Statement.

Financial Conduct Authority (FCA) – The conduct regulator for financial services firms in the UK, with objectives to protect consumers and financial markets and to promote competition.

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

Forbearance – Support offered to borrowers experiencing genuine financial hardship to enable them to remain in their homes, where this action is not expected to increase the level of debt in the long term.

Free capital – Gross capital less intangible assets, investment properties and property, plant and equipment. In 2017/18, free capital was adjusted for collective mortgage impairment provisions which are no longer applicable under IFRS 9.

Funding limit – Measures the proportion of shares and borrowings not in the form of shares held by individuals excluding non-recourse finance. The calculation of the funding limit is explained in the Annual Business Statement.

General Data Protection Regulation (GDPR) – a legal framework that sets guidelines for the collection and processing of personal information from individuals who live in the EU.

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

Gross capital – The aggregate of reserves, subscribed capital, subordinated liabilities and core capital deferred shares. In the prior year, gross capital included profit participating deferred shares which were fully cancelled in the prior year as part of the Liability Management Exercise.

House Price Index – this is a measure of the housing price change, in percentage terms, from a specific start date.

Impaired loans – Under IFRS 9, impaired loans are those assessed as stage 3 (default). In previous years, under IAS 39, impaired loans were defined as loans where there was evidence to suggest that the Group would not receive all of the contractual cash flows or there was an expectation that the cash flows would be received at a later date than when they were contractually due.

Individual Liquidity Adequacy Assessment (ILAA) – The Group's internal assessment of the levels of liquidity that need to be held by the Society to meet its regulatory liquidity requirements.

Individually/collectively assessed – Prior to IFRS 9 adoption on 1 April 2018 the Group assessed, at each reporting date, whether or not there was objective evidence that individual financial assets were impaired. If no objective evidence of impairment existed for an individually assessed financial asset, it was included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. A collective provision was made against a group of financial assets where there was evidence that credit losses had been incurred, but not individually identified, at the reporting date.

Interest rate risk – Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

Investment securities – Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings.

Law of Property Act (LPA) Receiver – a receiver appointed to manage a property, held as security for a mortgage, where the contractual terms of the mortgage have not been met.

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

Leverage ratio – Tier 1 capital as a percentage of total exposures which include on and off balance sheet assets after netting derivatives.

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

Liquidity coverage ratio (LCR) – A Basel III measure to ensure sufficient highly liquid assets cover expected net cash outflows under a 30-day liquidity stress scenario.

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

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

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

London Inter-Bank Offered Rate (LIBOR) – a benchmark interest rate, expected to cease in 2021, at which a selection of banks on the London money market are prepared to lend to one another.

Loss given default (LGD) – The difference between exposure at default (EAD) and the net amount expected to be recovered on a defaulted loan, expressed as a percentage of EAD.

Management expenses – Management expenses represent administrative expenses plus depreciation and amortisation. The management expenses ratio is calculated as management expenses expressed as a percentage of mean total assets.

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

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

Medium term notes (MTN) – Securities offered by a company to investors, through a dealer, across a range of maturities.

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

Mortgage backed securities (MBS) – Securities that represent an interest in an underlying pool of mortgage assets.

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

Net interest margin – Net interest income as a percentage of mean total assets.

Net Promoter Score (NPS) – A measure, ranging from -100 to +100, of the likelihood that a customer would recommend a product, service or brand. Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Net stable funding ratio (NSFR) – A ratio calculated as the amount of available stable funding against the amount of required stable funding.

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

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

Other income – The income received from selling non-mortgage and savings products (e.g. home and contents insurance, investment products, other insurances. It also includes rental income from investment property).

Permanent interest bearing shares (PIBS) – Unsecured, deferred shares that rank behind the claims of all depositors, payables and investing members of the West Brom with the exception of the claims of holders of core capital deferred shares and (in prior years) profit participating deferred shares.

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

Probability of default (PD) – The estimated probability that a borrower will default on their credit obligations.

Profit participating deferred shares (PPDS) – A form of unsecured Common Equity Tier 1 capital, fully cancelled following the Liability Management Exercise completed in April 2018.

Prudential Regulation Authority (PRA) – The prudential regulator for UK banks, building societies and insurers, with a general objective to promote the safety and soundness of the firms it regulates.

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

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

Residential loans – Mortgage lending secured against residential property.

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

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

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

Securitisation – A process by which a group of assets, usually loans, are aggregated into a pool which is used to back the issuance of new securities. An entity transfers these assets to a structured entity which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities.

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

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

Significant increase of credit risk (SICR) – A term used in IFRS 9 where quantitative and/or qualitative factors indicate that the credit risk associated with a non-defaulted loan has increased significantly since it was initially recognised in the Statement of Financial Position. Where a SICR has occurred, the loan is categorised as stage 2 requiring the recognition of lifetime expected credit losses.

Solely payments of principal and interest (SPPI) test – An assessment of whether the contractual terms of a financial asset give rise to cash flows which are solely payments of principal and interest on the principal amount outstanding. It is used to determine the appropriate measurement basis for the financial asset under IFRS 9.

Stage 1 – The IFRS 9 category to which financial assets held at amortised cost or FVOCI, which have not experienced a SICR since initial recognition, are assigned. 12-month ECLs are recognised for stage 1 assets and interest income is calculated by applying the effective interest rate to the gross carrying amount.

Stage 2 – The IFRS 9 category to which financial assets held at amortised cost or FVOCI, which have experienced a SICR since initial recognition, are assigned. Lifetime ECLs are recognised for stage 2 assets and interest income is calculated by applying the effective interest rate to the gross carrying amount.

Stage 3 – The IFRS 9 category to which defaulted financial assets held at amortised cost or FVOCI are assigned. Lifetime ECLs are recognised for stage 3 assets and interest income is calculated by applying the effective interest rate to the net (of impairment provision) carrying amount.

Sterling Overnight Index Average (SONIA) – a benchmark interest rate administered by the Bank of England SONIA is a measure of the rate at which interest is paid on sterling short-term wholesale funds in circumstances where credit, liquidity and other risks are minimal.

Subordinated liabilities – A form of unsecured Tier 2 capital. The Society's subordinated notes rank behind all other creditors of the Society, with the exception of holders of CCDS and PIBS.

Term Funding Scheme (TFS) – A scheme launched by the Bank of England, providing term funding to banks and building societies with the aim of promoting UK lending growth. **Term Funding Scheme with additional incentives for SMEs (TFSME)** is an equivalent scheme launched in March 2020.

Tier 1 capital – An element of regulatory capital and measure of financial strength, comprising Common Equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital is not deemed to be fully loss absorbing and can only be included in capital under the transitional arrangements of CRD IV.

Tier 2 capital – An element of regulatory capital comprising subordinated liabilities, eligible collective impairment allowances (in 2017/18) and certain regulatory deductions made for the purposes of assessing capital adequacy.

Total Capital Requirement (TCR) – The minimum amount of capital the Society is required to hold, set by the PRA and informed by the ICAAP.

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

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the West Brom

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