REGULATORY NEWS ANNOUNCEMENT

FOR IMMEDIATE RELEASE
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WEST BROMWICH BUILDING SOCIETY: CONFIRMATION OF THE SOCIETY'S REGULATORY CAPITAL POSITION

This announcement contains inside information.

This notice sets out details of the Society's plans for efficient management of its regulatory capital.

The Society is required to hold a certain amount of Common Equity Tier 1 **(CET1**) as part of its regulatory capital. For the Society, CET1 currently comprises the Society's retained profits and an instrument known as Profit Participating Deferred Shares (**PPDS**).

The PPDS need to comply with certain criteria in order to qualify as CET1 as a matter of law (the **CET1 Criteria**). A third party has alleged that the PPDS of the Society do not comply with one aspect of the CET1 Criteria. If this were to be correct, the Society would, over time, need to reduce the degree to which the PPDS count towards its CET1 capital. The implications of this are explained below.

The Society's Board believes that the PPDS are eligible as CET1 and that the PPDS meet the CET1 Criteria in all respects. The Board has sought external legal advice on this matter which has confirmed the Board's position. The Society has agreed with its regulator, the Prudential Regulation Authority **(PRA**), that it is appropriate to continue to treat PPDS as CET1. However, in the interests of certainty, it will seek clarification from the European Banking Authority (**EBA)** on this matter.

Until such confirmation is obtained from the EBA, the Board believes that it will be prudent to manage the Society so that it is protected from the possibility of an unexpected outcome.

To this end, the Society will be considering its options to help guard against the possibility of the EBA deciding that the PPDS do not comply with the CET1 Criteria and will seek to engage as appropriate with PPDS holders. These options include discussing the possibility of:

- the PPDS holders agreeing to a minor amendment to the Special Conditions of the PPDS that will remove the provision that is alleged not to comply with one aspect of the CET1 Criteria and put the qualification of the PPDS as regulatory capital beyond any doubt;

- potentially, in due course, and subject to terms acceptable to the Society and the PPDS holders and approval by the PRA, an offer by the Society to exchange the PPDS into Core Capital Deferred Shares (**CCDS**), which comply with the CET1 Criteria.

Given some recent media comment regarding options involving the Society's Permanent Interest Bearing Shares (**PIBS**), the Society would like to stress that there are no plans to address the uncertainty by a redemption of the PIBS at par. Indeed, the Society does not have the option to impose a redemption of the PIBS before April 2021, and even at that time, there is no commitment to do so. Any future redemption would be subject to PRA approval.

Were the EBA to determine that the PPDS do not meet the CET1 Criteria and the Society has not reached agreement with the holders of the PPDS, it is likely that the Society would have to reduce the degree to which the PPDS would count towards its CET1 by 50% today and thereafter by 10% per annum on each 1st January. Under this scenario, the Society's CET1 ratio would reduce from 13.8% as at the last reporting date of the Society (30th September 2016) to 11.3%. The total capital ratio of the Society would be unchanged at 16.1% as the element of PPDS that would be deemed not to qualify for CET1 would instead qualify for Tier 2 capital.

This would not result in the Society breaching any capital regulatory requirements set by the PRA. However, as the effect of the PPDS being deemed not to comply with the CET1 Criteria would mean the level of CET1 would reduce over time, the Board considers it important to explore options to ensure sound prudential planning and put the Society in a position to maintain healthy levels of CET1 for the foreseeable future under all outcomes.

Accordingly, in addition to the above options, the Board will also review initiatives to increase the level of the CET1 through efficient balance sheet management. The rules for how much CET1 is required to be held by the Society vary depending on the nature of the business undertaken by the Society. These initiatives would likely involve reducing certain types of business that require the Society to hold high levels of capital in order to maintain healthy levels of CET1 capital in light of its regulatory capital requirements and any potential adverse outcomes following the EBA clarification. The Board notes that one possible impact of seeking to reduce business that requires higher levels of regulatory capital is through asset disposals that may reduce levels of profitability in the medium term. However, the Board believes that it is important to prioritise a satisfactory CET1 position and believes that the efficient balance sheet optimisation is in the interests of the members of the Society as a whole.

The person responsible for arranging the release of this announcement on behalf of West Bromwich Building Society is Mark Gibbard, Group Finance & Operations Director.

ENQUIRIES

Nick Trueman

Public Relations Manager

pr@westbrom.co.uk

0121 796 7785