



Head Office: 2 Providence Place,
West Bromwich B70 8AF

www.westbrom.co.uk

30 March 2020

Dear PIBS Holder

On behalf of the Directors of West Bromwich Building Society, I am writing to you about a resolution which was passed at a meeting of the Board of the Society.

On 20th January 2020 the Society issued a public statement updating holders on the current position in relation to the future payment of interest on PIBS. A copy is appended to this letter.

In line with the distribution policy, the Board passed a resolution to cancel the interest payment due on 5 April 2020 with respect to the Society's PIBS.

The Board continues to keep its PIBS distribution policy under review, and there are no plans to revise this policy at this time. Should the policy be amended in the future, the Society will notify the markets accordingly.

Yours sincerely

Neil Noakes
Group Secretary

West Bromwich Building Society
Update on PIBS Distribution Policy

In response to investor queries received following the announcement on 2 October 2019 by West Bromwich Building Society (the "Society") that it had cancelled the latest scheduled interest payment on its 6.15 per cent. Permanent Interest Bearing Shares (the "PIBS"), the Society wishes to clarify its distribution policy for the PIBS.

By way of background, in 2018 the Society concluded a liability management exercise of ("LME") to modernise its capital structure. In connection with the LME, the Society announced its distribution policy with respect to PIBS which remained outstanding following the LME, as follows:

"In the event that any PIBS remain outstanding following conclusion of the LME, the current intention of the Board is to establish a policy whereby if it elects, in its sole discretion, to make any future payments of distributions on such residual PIBS, such payments will be made only if and to the extent that they would have been permitted had the LME not taken place. This will limit interest payments on the PIBS to the lower of (i) the equivalent annual yield that would have been paid to holders of PPDS (had they remained in issue on their original terms); and (ii) the annual rate set out in the Special Conditions of Issue of the PIBS (the "Specified Rate"), being 6.15 per cent. 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 per cent."

The Society added:

*"The Society notes that under this policy is it likely that no interest payments will be made on the PIBS if **any remain** outstanding) in the near term (including, for the avoidance of doubt, on 5 April 2018), and that subsequent interest payments on the PIBS, if made, will likely be below the Specified Rate. Further, the Board will continue to have complete discretion under the Special Conditions of Issue of the PIBS not to declare any distributions. The Board currently expects to pass a resolution cancelling the PIBS interest payment scheduled for 5 April 2018 in full. The Board will continue to keep its expected policy under review, having regard to its duties to act in the interests of the members of the Society as a whole."*

There have been no changes in the Society's view as expressed above during the LME. However, in light of investor queries received recently, the Society wishes to confirm as follows with respect to payments on PIBS being made only if and to the extent that they would have been permitted had the LME 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 (the "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). Had the LME not taken place:

- the PPDS would have remained outstanding in full, and accordingly the relevant profit participation (25% of the Society's after tax net profits or net losses in each year, subject to the terms of the PPDS) would have been allocated to the PPDS reserve in accordance with the terms and conditions of the PPDS; and

- the Tier 2 notes issued by the Society pursuant to the LME would not have been issued and accordingly, solely for the purposes of calculating the balance on the notional PPDS reserve, the Society's net profit/loss is adjusted to disregard the impact of such Tier 2 interest payments.

In connection with its distribution policy on the PIBS, the Society continues to calculate the PPDS reserve on the notional basis described above. The Society intends to publish the balance of the notional PPDS reserve account alongside its annual financial statements going forwards.

With respect to the balance of the notional PPDS reserve for the financial year ended 31 March 2019, and having regard to the Society's annual financial statements for that year, the notional PPDS reserve has been calculated as follows:

- as at 31 March 2018 (the last accounting date before completion of the LME), the PPDS reserve had a deficit of £9.1 million;
- in the financial year ended 31 March 2019, the Society generated a reported net profit of £9.1 million, including the impact of £2.5 million Tier 2 interest payable. The net profit disregarding Tier 2 interest would have been £11.2 million;
- accordingly, as at 31 March 2019, the notional PPDS reserve increased by £2.8 million (25% x 11.2 million), leaving a deficit of £6.3 million.

Since the notional PPDS reserve account was in deficit, no distributions would have been payable on the PPDS had they remained outstanding. The annual yield to PPDS holders would therefore have been nil, and accordingly the equivalent annual yield on the PIBS would also have been nil.

It should be noted that the PIBS distribution policy is provided by way of guidance on the Society's current expectations. Whilst the generation of profits and a positive balance on the notional PPDS reserve account are pre-requisites to the payment of PIBS distributions under the policy, the terms of the PIBS permit the Society to cancel distribution payments in whole or in part. The Board continues to keep its PIBS distribution policy under review, and there are no plans to revise this policy at this time. Should the policy be amended in the future, the Society will notify the markets accordingly.

20 January 2020

ENQUIRIES:

The West Brom

0121 796 7790

Ashraf Piranie
Group Finance & Operations Director

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