REGULATORY NEWS ANNOUNCEMENT

FOR IMMEDIATE RELEASE
12 JUNE 2009

WEST BROMWICH BUILDING SOCIETY: STRENGTHENING OF CORE TIER 1 CAPITAL

Summary

- West Bromwich Building Society (the "Society") today announces that it has reached agreement with holders of the Society's subordinated debt to effect the exchange of the full outstanding principal amount of the Society's subordinated debt, totalling £182.5 million, for a new instrument, Profit Participating Deferred Shares ("PPDS"), which will qualify as core tier 1 capital (the "Capital Exchange").

- The Capital Exchange will materially strengthen the Society's core tier 1 capital ratio from 6.8% (as at 31 March 2009) to 11.6% on a pro-forma basis. At this level, the Society's core tier 1 capital ratio is amongst, we believe, the highest in the sector.

- The Society's total capital ratio is maintained at over 14%.

- The PPDS will be entitled to receive a dividend, at the discretion of the Society, of up to 25% of the Society's future consolidated post-tax profits (calculated prior to payment of the PPDS dividend).

- The Capital Exchange has been approved by the Financial Services Authority ("FSA") and is expected to complete by the end of July.

- As a result of the Capital Exchange and a desire to achieve yield equivalence between the holders of PPDS and the Society's permanent interest bearing shares ("PIBS"), the Society will implement the following policy in relation to the interest payments on the Society's existing PIBS:

    - With respect to the interest payment date of 5 October 2009, to pay an interest payment which reflects the level of accrued interest (at an annualised rate of 6.15%) from 5 April 2009 to the date of the completion of the Capital Exchange plus, with respect to the period from completion to 5 October 2009, such amount as represents, when annualised, up to 1.5% of the outstanding principal amount of the PIBS;

    - With respect to the interest payment date of 5 April 2010, to pay an interest payment which represents, when annualised, up to 1.5% of the outstanding principal amount of the PIBS; and

– With respect to subsequent interest payments, as a condition of the PPDS, the Society has undertaken to pay an amount which, when annualised, represents the lower of: 6.15% of the outstanding principal amount of the PIBS and the dividend yield attributable to the PPDS with respect to the prior financial year ending 31 March.

Background - Balance Sheet & Capital Strength

During the last 12 months, it has become increasingly clear that both the rating agencies and the FSA are focusing on the composition of building societies' capital bases, as well as the absolute total level of capital held.

This has led to a heightened focus on core tier 1 capital, which is the most effective form of regulatory capital with respect to absorbing losses. This ability to absorb losses is particularly relevant given the stress-test exercises that the regulator has been undertaking on a number of the largest building societies.

This increased focus on core tier 1 capital meant that the Society, despite having a relatively high level of total capital, was less well placed to withstand the stress-test exercises, as around half of its total capital was held in the form of non-core tier 1 instruments.

Accordingly, and in consultation with the FSA, the Society has reached agreement with holders of its subordinated debt to effect the exchange of all of the £182.5m of the Society's tier 2 subordinated debt, being the full outstanding principal amount, for a new form of capital for building societies, PPDS, which will count as core tier 1 capital.

Following the Capital Exchange, which has received FSA approval and is due to complete by the end of July, some 82% of the Society's capital will be core tier 1, so enabling the Society to demonstrate resilience in the face of stress-test scenarios. On a pro-forma basis, the Society's core tier 1 ratio will increase from 6.8% to 11.6%, amongst, we believe, the highest in the sector.

The Capital Exchange is subject to the approval of holders of the following subordinated notes at noteholder meetings to be held as soon as practicable after the date of this announcement: £50m 6.125% 2017 notes (the "2017 notes") and £25m 5.625% 2025 notes (the "2025 notes"). Noteholders representing 98% by value of the 2017 notes and 79% by value of the 2025 notes have irrevocably undertaken to approve the Capital Exchange. This level of approval is sufficient to effect the Capital Exchange in full.

Terms of PPDS

The PPDS constitute permanent deferred shares in the Society and have no specified final maturity or repayment date.

In the event of a winding-up, the PPDS will rank *pari passu* with the claims in respect of the Society's existing PIBS, in contrast to the existing tier 2 subordinated debt which, prior to the Capital Exchange, ranks ahead of the PIBS.

Save as described below, the PPDS will be entitled to receive a dividend, at the discretion of the Society, of up to 25% of the Society's consolidated post-tax profits in the future (calculated prior to payment of the PPDS dividend), with any balance of the 25% not distributed in any year being credited to a PPDS reserve in the Society's accounts. The PPDS reserve account can be utilised to absorb 25% of future consolidated post-tax losses. Any surplus on the PPDS reserve is attributable to PPDS holders in the event of a merger, transfer or demutualisation of the Society, but is not available for distribution to PPDS holders in a winding-up.

If the Society incurs consolidated post-tax losses, no dividends may be paid on the PPDS in respect of the relevant year. Instead, an amount equal to 25% of the losses is allocated to the PPDS and is, first, set off against any positive balance on the PPDS reserve account and, secondly, any balance, applied to reduce the principal value of the PPDS. Where the principal value of the PPDS has been so reduced and is less than the initial principal value, and the Society records consolidated post-tax profits, 25% of those profits are allocated to the PPDS. Those 25% of profits are applied, first, to restore the principal value of the PPDS to the initial principal value (with no dividend being payable until the principal value has been so restored) and, secondly, for distribution as dividend or crediting to the PPDS reserve account as the Society determines, as described above.

Dividends on the PPDS are non-cumulative.

The PPDS will not be protected deposits for the purposes of the Financial Services Compensation Scheme. The PPDS are deferred shares for the purposes of Section 119 of the Building Societies Act 1986, as amended.

Implications on PIBS

The PIBS are not part of the Capital Exchange and will remain outstanding.

The PIBS bear interest at 6.15% per annum, payable on 5 April and 5 October each year. However, the Board of the Society has discretion to reduce or cancel the interest payments.

As a result of the Capital Exchange and a desire to achieve yield equivalence between the holders of PPDS and the Society's PIBS, the Society will implement the following policy in relation to the interest payments on the Society's existing PIBS:

- With respect to the interest payment date of 5 October 2009, to pay an interest payment which reflects the level of accrued interest (at an annualised rate of 6.15%) from 5 April 2009 to the date of the completion of the Capital Exchange plus, with respect to the period from completion to 5 October 2009, such amount as represents, when annualised, up to 1.5% of the outstanding principal amount of the PIBS;

- With respect to the interest payment date of 5 April 2010, to pay an interest payment which represents, when annualised, up to 1.5% of the outstanding principal amount of the PIBS; and

- With respect to subsequent interest payments, as a condition of the PPDS, the Society has undertaken to pay an amount which, when annualised, represents the lower of: 6.15% of the outstanding principal amount of the PIBS and the dividend yield attributable to the PPDS with respect to the prior financial year ending 31 March.

As part of the Capital Exchange, the Society has also undertaken not to purchase any of the existing PIBS at any time before 5 April 2021. The purchase of any of the existing PIBS at any time on or after 5 April 2021 remains a matter within the discretion of the Society.

Listing

The PPDS will not be listed.

The Society will apply to the FSA, in its capacity as the United Kingdom Listing Authority ("UKLA"), to cancel the listing on the Official List of the UKLA of the listed subordinated debt which is the subject of the Capital Exchange, with effect from completion of the Capital Exchange. The subordinated debt concerned comprises:

- £50,000,000 6.125% 2017 notes (ISIN: XS0287427545);

- £25,000,000 6.625% 2017 notes (ISIN: XS0308758936); and

- £25,000,000 5.625% 2025 notes (ISIN: XS0213300600).

Comments

Robert Sharpe, Chief Executive, said:

"The exchange of the Society's tier 2 sub-debt into core tier 1 capital materially strengthens our capital position and, under stress-test scenarios, has demonstrated our ability to withstand a further significant deterioration in market conditions.

We have a solvency ratio of 14% and, post exchange of the sub-debt, a core tier 1 ratio of 11.6%, ratios which are amongst the strongest in the sector. With this firm footing, we are well positioned for the future."

Lexicon Partners acted as financial adviser to the Society in relation to the Capital Exchange.

ENQUIRIES:

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Note to editors:

Core tier 1 capital for building societies comprises the aggregate of members' reserves and PPDS, less deductions with respect to intangible assets and certain other adjustments. PIBS are not included in core tier 1.

Capital Exchange and will not be responsible to anyone other than the Society for providing the protections afforded to customers of Lexicon Partners or for providing advice in relation to the Capital Exchange or in relation to the contents of this announcement or any transaction or arrangement referred to herein.