



WEST BROMWICH
BUILDING SOCIETY

THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in doubt about any aspect of this document and/or the action you should take, you are recommended to seek your own legal and/or financial advice, including in respect of tax consequences, immediately from your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 (if you are in the United Kingdom) or another appropriately authorised professional independent adviser.

If you have sold or transferred all your permanent interest bearing shares in West Bromwich Building Society please pass this document and the accompanying form of proxy to the purchaser or transferee or to the agent through whom the sale was effected for onward transmission to the purchaser or transferee.

WEST BROMWICH BUILDING SOCIETY

Proposals to vary the special conditions of issue of the

£75,000,000 6.15 PER CENT. PERMANENT INTEREST BEARING SHARES ISSUED BY THE SOCIETY

NOTICE OF MEETING

of the holders of the Permanent Interest Bearing Shares

A letter from the Chairman of the Society is set out on pages 3 to 6 of this document.

A notice convening a meeting of the PIBS holders appears on page 7 of this document. The meeting will be held on Friday 4 September 2009 at 1.00pm at Tallow Chandlers' Hall, 4 Dowgate Hill, London EC4R 2SH.

The action to be taken is set out on page 6 of this document. If you do not intend to be present at this meeting, please complete the form of proxy enclosed with this document, and return it to Electoral Reform Services c/o West Bromwich Building Society, 374 High Street, West Bromwich, West Midlands B70 8LR as soon as possible, but in any event so as to be received no later than midnight on Tuesday 1 September 2009. The completion and return of a form of proxy will not prevent you from attending the relevant meeting and voting in person.

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Definitions

The following definitions apply in this document and the accompanying form of proxy:

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|-------------------------------|---|
| “Board” or “directors” | The board of directors of the Society |
| “Capital Exchange” | The exchange of the Society’s subordinated debt for PPDS, announced on 12 June 2009 |
| “Form of Proxy” | The form of proxy accompanying this document |
| “Meeting” | The meeting of the PIBS holders convened by the Notice |
| “Notice” | The notice of meeting set out at the end of this document |
| “PIBS” | The £75,000,000 6.15 per cent Permanent Interest Bearing Shares issued by the Society |
| “PIBS holders” | Holders of PIBS |
| “PPDS” | The Profit Participating Deferred Shares issued by the Society |
| “Subordinated Debt” | The £182.5 million of subordinated debt of the Society which is being exchanged for PPDS under the Capital Exchange |
| “Society” | West Bromwich Building Society |
| “Special Conditions” | The special conditions of issue of the PIBS |

PART I

WEST BROMWICH BUILDING SOCIETY

(incorporated and registered in England and Wales under the Buildings Societies Act 1986
with Registered Number 651B)

Directors:

Dr Brian Woods-Scawen (Chairman)
Robert Sharpe (Chief Executive)
Jonathan Westhoff (Group Finance Director)
Ed Hucks (Deputy Chairman)
Lesley James (Non-executive Director)
Bharat Shah (Non-executive Director)
John Bywater (Non-executive Director)
Huw Davies (Non-executive Director)
Mark Stansfeld (Non-executive Director)

Principal Office:

374 High Street
West Bromwich
West Midlands
B70 8LR

11 August 2009

Dear PIBS holder

Proposals to vary special conditions of issue of the PIBS

Introduction

The Society announced on 12 June 2009 that it had reached an agreement to allow it to effect the exchange of all the Society's subordinated debt (totalling £182.5million) for a new instrument, Profit Participating Deferred Shares (PPDS), which will qualify as core tier one capital.

I wrote to PIBS holders on 21 July 2009 explaining the background to, and consequences for the PIBS of, the Capital Exchange. As I explained in that letter, as a consequence of the Capital Exchange, the Society wishes to propose to PIBS holders, for their consideration and decision, certain consequential variations to the special conditions of issue of the PIBS.

I am writing to you now to set out the details of the proposed variations and to seek the necessary approvals of the PIBS holders at a meeting of PIBS holders. The Meeting will be held at Tallow Chandlers' Hall, 4 Dowgate Hill, London EC4R 2SH on Friday 4 September 2009 at 1.00pm.

Background to the Capital Exchange

As I am sure you will have seen in the national media, the current financial crisis has had a very direct and significant impact on the Building Society sector as a whole and regrettably has seen a number of societies losing their independence and one society – the Dunfermline – going into administration. Unfortunately the Society has not been immune to this and on 12 June 2009 announced a post-tax loss for the year ended 31 March 2009 of £39.3 million after provisions of £65.2 million for bad debts, a £10.9 million write down on property portfolios and a Financial Services Compensation Scheme charge of £12.2 million.

The financial crisis has meant that the Society, in common with several other larger building societies, has been the subject of stress test exercises carried out by the Financial Services Authority (FSA), testing the composition and robustness of the Society's capital base and its ability to withstand losses in various scenarios. These tests have focussed increasingly on the extent of the Society's core tier one capital, rather than other forms of capital. As only around one half of the Society's total capital was held in the form of core tier one instruments it became clear that it was strongly in the interests of the Society to review all options for improving the Society's capital position, as a matter of urgency.

Throughout this time the Board was consulting closely with the FSA, which in turn had been working on a new form of capital instrument, PPDS, which would offer building societies generally a new way of raising their core tier one capital. The Board decided that the most effective way of achieving the necessary improvements to the Society's capital position in time to be reflected in the Society's 2008/9 accounts, was to convert all the Subordinated Debt into PPDS. This conversion – the Capital Exchange – was agreed and announced on 12 June 2009.

The Capital Exchange results in approximately 82% of the Society's capital being constituted as core tier one capital, enabling the Society to demonstrate greater resilience in the face of stress testing scenarios. On a pro-forma basis the Society's core tier one capital is increased from 6.8% to 11.6%.

The Subordinated Debt, which was exchanged for PPDS under the Capital Exchange, ranked ahead of the Society's PIBS. However, the PPDS, which the Subordinated Debt holders received under the Capital Exchange, rank *pari passu* with the PIBS and do not, therefore, have the priority the holders previously enjoyed. Also, unlike the Subordinated Debt, the PPDS are permanent capital and do not have a repayment date. Another key difference is that whilst the Subordinated Debt carried a LIBOR linked rate of interest, the PPDS are entitled to a discretionary dividend of up to 25% of the Society's profit (effectively a reduced return for at least the medium term). Further, in the event of the Society incurring a loss, the PPDS holders absorb 25% of that loss.

In summary, the Capital Exchange entailed the holders of the Subordinated Debt accepting:

- a reduced return, with that return being more uncertain due to the loss absorbency feature of the PPDS;
- a permanent lowering of their ranking in the event of a winding up of the Society;
- that their instruments (the PPDS) would be permanent (i.e. non repayable) and not a loan, which is repayable;
- that the principal amount of their instrument would be reduced by losses, unlike the Subordinated Debt and the PIBS; and
- that the PPDS would not be listed, unlike the majority of the Subordinated Debt, and so would be hard to sell.

Not surprisingly, the holders of the PPDS believed it was inequitable that they should shoulder the whole of the impact of the capital restructuring, particularly when the PIBS ranked below the Subordinated Debt. It was, therefore, a condition of their agreement that the Board agree in turn to exercise the power set out in the PIBS Special Conditions to reduce the yield attaching to the PIBS to a level which equalled the yield attaching to the PPDS. In effect, this ensured that the PIBS, which ranked below the Subordinated Debt before the Capital Exchange, did not obtain a superior income position to the PPDS under the Capital Exchange.

The Board's decision

In order to address the possibility of administration and break up, like Dunfermline Building Society, and the likely adverse impact that this would have on the Subordinated Debt and, by clear implication the PIBS (because they ranked below the Subordinated Debt), the Society's Directors concluded that it was necessary and in the best interests of the PIBS holders and the Society's other members to agree to the Capital Exchange on these terms.

Impact of the Capital Exchange on PIBS interest

Accordingly, on 12 June 2009 the Society announced that, as part of the Capital Exchange, it would implement the following policy in relation to interest payments on the PIBS:

- with respect to the interest payment due on the PIBS on 5 October 2009, the Society would pay an interest payment which reflects the aggregate of (i) the level of accrued interest at an annualised rate of 6.15% from 5 April 2009 until the date of completion of the Capital Exchange (16 July 2009) and (ii) the level of accrued interest at an annualised rate of 1.5% of the outstanding principal amount of the PIBS from 16 July 2009 until 5 October 2009;
- with respect to the interest payment due on the PIBS on 5 April 2010, the Society would pay an interest payment which reflects the level of accrued interest at an annualised rate of 1.5% of the outstanding principal amount of the PIBS from 5 October 2009 until 5 April 2010; and

- with respect to the subsequent interest payments due after 5 April 2010, as required pursuant to the special conditions of issue of the PPDS, the Society will pay an amount which, when annualised, represents the lower of (i) 6.15% of the outstanding principal amount of the PIBS and (ii) the dividend yield attributable to the PPDS with respect to the prior financial year ending 31 March.

Background to the proposed variations to the Special Conditions

The Special Conditions confer on the Board an unfettered discretion to pass a resolution cancelling or requiring a reduction in the interest payable on the PIBS. This is a usual term of permanent interest bearing shares, given the regulations governing building societies' capital, and the power was highlighted in the PIBS Prospectus, issued in July 2005, as a risk factor for investors. It is this power that will be exercised in the manner described above.

The Special Conditions also impose various consequential requirements on the Society if the Board exercises that power including, for example, a requirement that the Society should convene a meeting of all its members for the sole purpose of informing those members of the decision every time the power is exercised. The Board believes that these requirements will cause avoidable cost and inconvenience, and will not benefit any class of the Society's members.

As a consequence, the Society is seeking the authority of the PIBS holders to relax these requirements in the Special Conditions as described in more detail below. The relaxation of these requirements will only apply to a reduction or cancellation of the interest payable on the PIBS which is required by the change in PIBS interest policy attributable to the PPDS, as described above. The requirements would continue to apply to any other reduction or cancellation of the interest payable on the PIBS. The proposed variations are described in more detail below.

The proposed variations

Requirement to convene a special general meeting

Firstly, the Society is seeking the authority of the holders of the PIBS to vary sub-paragraph (III) of Special Condition 4(3)(c)(ii) in the terms of resolution 1 as set out in the Notice. Sub-paragraph (III) of Special Condition 4(3)(c)(ii) currently provides that if the interest attaching to the PIBS is reduced or cancelled by a resolution of the Board, the Society shall, as soon as reasonably practicable, convene a special general meeting of all members of the Society. At this meeting the Chairman is required to inform the Society's members of the passing of the resolution to reduce or cancel the interest payment on the PIBS, the reason for the reduction or cancellation and the consequences for the Society of the passing of the resolution. There is no further stipulation as to any action to be taken by the meeting.

The proposed variation in resolution 1 would remove the obligation on the Society in this sub-paragraph to convene a special general meeting in the event of a reduction or cancellation of the interest payable on the PIBS which is required by the change in PIBS interest policy attributable to the PPDS. The Board considers this current requirement results in avoidable cost and inconvenience. The potential expense to the Society of convening a special general meeting each time the interest on the PIBS is reduced or cancelled (which could be half yearly) is estimated to be in the region of £125,000. Clearly this cost reduces profits, and hence the coupon receivable by the PPDS holders and also the PIBS holders. The Board considers that this expenditure, amounting to £250,000 for two meetings in a year, is not in the interests of any class of the Society's members. The removal of this general meeting requirement would only apply to a reduction or cancellation of PIBS interest which is required by the change in PIBS interest policy attributable to the PPDS, and not any other reduction or cancellation.

Postponement of other interest payments

Secondly, the Society is seeking the authority of the holders of the PIBS to vary Special Condition 4(3)(c)(i) in the terms of resolution 2 set out in the Notice. This Special Condition requires that if there is any reduction or cancellation of interest on the PIBS, any holders of other deferred shares of the Society (which would include the PPDS holders), are prevented from receiving any interest or dividend on their deferred shares for a period of five months.

The proposed variation in resolution 2 of the Notice would, if approved by the PIBS holders, remove this postponement in relation to the payment of dividends to PPDS holders where the reduction or cancellation is required by the change in PIBS interest policy attributable to the PPDS. This would allow the Society to pay the dividends on the PPDS by the time of the Annual General Meeting of the Society at which the audited accounts for the relevant year are approved, as provided by the terms of the PPDS. The removal of this five month

postponement would only apply to a reduction or cancellation of PIBS interest which is required by the change in PIBS interest policy attributable to the PPDS, and not any other reduction or cancellation.

Variations to the public announcement requirements

Finally, the Society is seeking the authority of the holders of the PIBS to vary sub-paragraphs (I) and (II) of Special Condition 4(3)(c)(ii) in the terms of resolution 3 as set out in the Notice. These sub-paragraphs currently provide that if the interest attaching to the PIBS is reduced or cancelled, the Society shall publicly announce the reduction or cancellation, through the RNS provided by the London Stock Exchange, the PR Newswire Disclose and each other stock exchange on which the Society has securities listed. Under the Special Conditions, this announcement is also required to name personally the members of the Board and their respective titles.

The proposed variations in resolution 3 would remove the requirement to name personally the members of the Board and their titles if a cancellation or reduction of interest on the PIBS is required by the change in PIBS interest policy attributable to the PPDS. The requirement that all Board members be named in an announcement is unusual. Given that the reductions of the PIBS coupon required by the change in PIBS interest policy attributable to the PPDS are not a one off, and were agreed as part of the Capital Exchange which was effected in the interests of the Society and all its members, the Board believes that this naming requirement is inappropriate in these circumstances. The removal of this naming requirement would only apply to a reduction or cancellation of PIBS interest which is required by the change in PIBS interest policy attributable to the PPDS, and not any other reduction or cancellation.

Action to be taken

All holders of PIBS are entitled to attend the Meeting and vote on each of the three resolutions detailed in the Notice. The Board, however, understands that you may be unable to attend the Meeting of PIBS holders in person, and so a form of proxy is enclosed for your use.

If you do not attend the Meeting, you may cast your vote by completing and returning the enclosed form of proxy in accordance with the instructions printed on the form to Electoral Reform Services, c/o West Bromwich Building Society, 374 High Street, West Bromwich B70 8LR. Forms of proxy must be lodged as soon as possible and in any event so as to be received not later than midnight on Tuesday 1 September 2009 being two clear days before the time appointed for the holding of the Meeting.

Completion and return of a form of proxy will not prevent you from attending and voting at the Meeting in person should you wish to do so.

Voting

The votes on each resolution will be taken on a poll at the Meeting. Each resolution requires the support of votes representing in aggregate not less than three quarters of the principal amount of PIBS represented at the Meeting and voting on the resolution.

Recommendation

The Board recognises it is for the PIBS holders to decide as they see fit in regard to the proposed variations to the Special Conditions of the PIBS and the Board will of course abide by the outcome of the Meeting.

The Board does however believe that it would be in the best interests of the Society, including its PIBS holders, that all the resolutions are passed and in this letter I have explained why the Board holds that opinion. Accordingly, the Board unanimously recommends you to vote in favour of all three of the resolutions to be proposed at the Meeting.

Yours sincerely,



Dr Brian Woods-Scawen

Chairman

NOTICE OF A MEETING OF THE HOLDERS OF THE £75,000,000 6.15 PER CENT. PERMANENT INTEREST BEARING SHARES (PIBS) ISSUED BY WEST BROMWICH BUILDING SOCIETY (THE SOCIETY).

Notice is hereby given that, pursuant to the condition 10 of the special conditions of issue of the PIBS (**Special Conditions**) a meeting of the holders of the PIBS is convened by the Society to be held at 1.00 pm on 4 September 2009 at Tallow Chandlers' Hall, 4 Dowgate Hill, London EC4R 2SH for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as Special Resolutions in accordance with the provisions of the Special Conditions:

SPECIAL RESOLUTIONS

1. THAT this separate meeting of the holders of the outstanding £75,000,000 6.15 per cent. Permanent Interest Bearing Shares issued by the Society hereby sanctions the variation by the Society of sub-paragraph (III) of Special Condition 4(3)(c)(ii) in the Special Conditions of such Shares so that it shall read as follows:

“(III) save in the case of a cancellation or reduction in the interest payment which is required by the special conditions of the PPDS or in the case of the interest payments to be made on 5 October 2009 and 5 April 2010, convene a special general meeting of its Members at which the Chairman will inform the Members of (A) the passing of the resolution by the Board, (B) the reasons for the passing of such resolution and (C) the consequences for the Society of the passing of such resolution.”
2. THAT this separate meeting of the holders of the outstanding £75,000,000 6.15 per cent. Permanent Interest Bearing Shares issued by the Society hereby sanctions the variation by the Society of Special Condition 4(3)(c)(i) in the Special Conditions of such Shares so that it shall read as follows:

“(i) the Society shall procure that it does not pay any interest or dividend on any other class of deferred shares (as defined in the Act) of the Society other than any Mandatory PIBS or Profit Participating Deferred Shares for a period of 5 months following the passing of such resolution. For the purposes of these Conditions, “**Mandatory PIBS**” mean any class of deferred shares the terms of which do not provide for the Board to be able to cancel any interest or dividend payment at its discretion and “**Profit Participating Deferred Shares**” or “**PPDS**” means the profit participating deferred shares issued by the Society with an initial aggregate principal value of £182,500,000;”
3. THAT this separate meeting of the holders of the outstanding £75,000,000 6.15 per cent. Permanent Interest Bearing Shares issued by the Society hereby sanctions the variation by the Society of sub-paragraphs (I) and (II) of Special Condition 4(3)(c)(ii) in the Special Conditions of such Shares so that they shall read respectively as follows:

“(I) notify each stock exchange on which it has any securities (including the PIBS) for the time being listed, of the passing of the resolution by the Board (together with, save in the case of a cancellation or reduction in the interest payment which is required by the special conditions of the PPDS or in the case of the interest payments to be made on 5 October 2009 and 5 April 2010, a list of the Board members and their titles) and the cancellation (in whole or in part) of the relevant interest payment;”

“(II) notify RNS provided by the London Stock Exchange and PR Newswire Disclose provided by PR Newswire (or in each case, any successor regulatory information service), of the passing of the resolution by the Board (together with, save in the case of a cancellation or reduction in the interest payment which is required by the special conditions of the PPDS or in the case of the interest payments to be made on 5 October 2009 and 5 April 2010, a list of the Board members and their titles) and the cancellation (in whole or in part) of the relevant interest payment; and”

Principal Office of the Society:

374 High Street
West Bromwich
West Midlands
B70 8LR

Notes:

1. PIBS holders are entitled to attend this meeting and vote on each resolution.
2. A PIBS holder may appoint a proxy to attend and, on a poll, vote instead of him or her. A proxy need not be a PIBS holder. Completing and returning a form of proxy will not prevent a PIBS holder from attending the meeting and voting in person.
3. To be valid, a signed proxy in the accompanying form must reach the Principal Office of the Society no later than 1 September 2009.
4. At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the principal amount of the PIBS for the time being outstanding shall form a quorum.
5. Votes in favour of each Special Resolution must represent not less than three quarters of the principal amount of PIBS represented at the Meeting and voting on the resolution in order for the resolution to be duly passed.
6. If passed, a Special Resolution will be binding upon all Holders, whether or not they were present or represented at the Meeting and whether or not they voted at the Meeting.



PRINCIPAL OFFICE: 374 HIGH STREET, WEST BROMWICH B70 8LR. TEL: 0845 33 00 622 FAX: 0121 500 5961

Calls and electronic communications may be monitored and/or recorded for your security and may be used for training purposes. Your confidentiality will be maintained.

The Society is authorised and regulated by the Financial Services Authority. FSA Register No. 104877.

9796-07-09-01