

WEST BROMWICH BUILDING SOCIETY

Permanent Interest Bearing Shares

Q&A

*This Q&A is provided to assist holders of West Bromwich Building Society's (the **Society**) Permanent Interest Bearing Shares (the **PIBS**) in understanding certain of their rights under the terms of the PIBS. This Q&A does not purport to, and does not, contain a full description of the PIBS and all rights attaching thereto, and it must be read together with the full Special Conditions of Issue of the PIBS which are available on the Society's website.*

1. **Where can I find information concerning my rights under the PIBS?**

The Special Conditions of Issue of the PIBS (as amended from time to time, the **Conditions**) are available on the Society's website at <https://www.westbrom.co.uk/about-us/financial-information/pibs-and-ppds>. The terms of the PIBS are set out in the Conditions and the website also contains links to further information regarding interest payments in respect of the PIBS.

2. **When were the PIBS issued? Have the Conditions been amended since then?**

The PIBS were originally issued in 2005. The Prospectus dated 26 July 2005, which contains the original PIBS Conditions, is available on the Society's website, at the link contained under Question 1 above.

The PIBS Conditions have been amended twice since their original issue, in each case with the approval of the PIBS holders passed at separate class meetings of such PIBS holders only. These meetings were held on 4 September 2009 and 9 April 2018, respectively. In each case, variations were made to Condition 4(3)(c) of the PIBS Conditions. The Society's website, at the link contained under Question 1 above, contains links to the variations made following the 4 September 2009 meeting, as well as the current Conditions as most recently varied on 10 April 2018, following the 9 April 2018 meeting. The Conditions as varied on 10 April 2018 set out the current rights of PIBS holders.

3. **Can the PIBS be redeemed or cancelled without PIBS holders' consent?**

The terms of redemption and cancellation of the PIBS are set out at Condition 5.

The Society may elect to redeem all of the PIBS outstanding at their principal amount (subject to approval from the Prudential Regulation Authority and compliance with prevailing prudential rules) on 5 April 2021 or any scheduled interest payment date thereafter (each an **Optional Call Date**). The redemption price in the event of such a call will be the principal amount of the PIBS, irrespective of whether the PIBS are trading higher or lower than this price. For example, if a holder holds £1,000 in principal amount of PIBS, those PIBS would be redeemed at a price of £1,000, even if the market price of the PIBS at that time were higher or lower than £1,000.

The Society will give not less than 30 days', nor more than 60 days', notice to PIBS holders prior to an Optional Call Date if it intends to redeem the PIBS on such Optional Call Date. If the Society does not give notice within this window, that will mean that it has elected not to redeem the PIBS on such Optional Call Date.

The Society may also, by agreement with a PIBS holder, purchase PIBS from such holder at any time (subject to approval from the Prudential Regulation Authority and compliance with prevailing

prudential rules). Any such purchase would be on terms – including as to price – agreed between the Society and the relevant PIBS holder. Such PIBS will be immediately cancelled on purchase by the Society.

The Society has no other redemption rights under the Conditions or under building societies law, including that there is no provision under the Building Societies Act for a reduction of capital that would permit the Society to redeem the PIBS at its option (with or without the approval of a court) in circumstances other than those set out in the preceding paragraphs.

For information regarding the rights of PIBS holders in a winding-up or dissolution of the Society, or on a transfer of its business, please see Question 5 below.

4. Does the Society intend to exercise its right to redeem the PIBS on 5 April 2021?

No decisions have been taken at this time. Any decisions with respect to the exercise of the Society's redemption right under Condition 5 will only be taken shortly before an Optional Call Date, having regard to the circumstances prevailing at that time (including, but not limited to, the financial condition and capitalisation of the Society).

In accordance with the Conditions, the Society will give not less than 30 days', nor more than 60 days', notice to PIBS holders prior to an Optional Call Date if it intends to redeem the PIBS on such Optional Call Date. Under the prudential rules, the Society will need to obtain the prior permission of the Prudential Regulation Authority before delivering a call notice to the PIBS holders.

5. What are my rights as a PIBS holder in a winding-up of the Society?

The Conditions specify what would happen to the PIBS in a winding-up or dissolution, including if the Society's business is transferred as a going concern to another entity.

On the winding-up or dissolution of the Society *other than* as part of a transfer of the Society's business to another entity as a going concern, the PIBS would be repayable in accordance with Conditions 5(3) and 5(4). Holders should note that the claims of the PIBS holders in such event would be subordinated to most other investors in the Society. As such, PIBS holders would only recover amounts in the winding-up or dissolution if the Society has sufficient assets remaining to pay them after all of the more senior-ranking creditors have first been paid in full. In an insolvent winding-up or dissolution, there is a significant risk that, due to this subordination, PIBS holders would not be eligible to receive any amounts whatsoever in the winding-up or dissolution.

On the Society's amalgamation with, or transfer of engagements to, another building society, the PIBS would become deferred shares in the successor society, in accordance with Condition 8.

On a transfer of the Society's business to a company, the PIBS would become a subordinated deposit which would be immediately and automatically applied in the subscription of undated subordinated bonds of the successor, in accordance with Condition 8.

6. Can the Society change the rights attaching to the PIBS without the consent of the holders?

The Society does not have the right to change the Conditions unilaterally.

In accordance with Condition 9, the Society is only permitted to change the Conditions with the consent of holders representing not less than three-quarters in principal amount of the PIBS outstanding at that time, or with the approval of PIBS holders given by way of a resolution passed at a separate class meeting of the PIBS holders in accordance with Condition 10. If the requisite majorities of PIBS holders, as specified in Conditions 9 and 10, provide their consent to a change in

the rights attaching to the PIBS, all PIBS holders will be bound by that change (including PIBS holders who did not provide their consent or who voted against that change).

As provided in Condition 9, the Conditions of the PIBS do not limit the rights of the Members of the Society to change the Rules. Under Condition 9(2) of the PIBS, the Society undertakes not to initiate any change to the Rules that is both (a) inconsistent with the provisions of the PIBS Conditions and (b) materially prejudicial to the interests of the PIBS holders (in their capacity as PIBS holders).

If, however, the Members (or, in breach of the undertaking at Condition 9(2), the Society) were to initiate such a change in the Rules, it is possible that the Rules could be amended in a manner which is inconsistent with the PIBS Conditions and which is materially prejudicial to the interests of PIBS holders. If any such changes were made to the Rules in such circumstances and, as a result, the Society were to act in breach of the PIBS Conditions, the PIBS Conditions expressly recognise that the change in Rules will not limit any rights of a PIBS holder to bring an action for breach of contract against the Society, nor afford the Society any defence to any such claim.

7. I am a holder of PIBS. Am I entitled to vote at the Society's Annual General Meeting?

Each person or organisation named on the PIBS register as a holder of PIBS (a **Registered Holder**) will be a member of the Society and will be entitled to one vote at the Annual General Meeting of members of the Society in accordance with the Society's Rules (regardless of the number of PIBS such person is registered as holding).

In many cases, the Registered Holder may be a custodian or broker acting as nominee for underlying clients. Such underlying clients will not be members of the Society by virtue of their indirect holding of PIBS, and so (unless they are a member of the Society in a different capacity) will have no direct right to vote at a meeting of members. Whilst, in some cases, an underlying client may be able to direct its nominee to vote as the client instructs, in practice a nominee may hold PIBS for multiple clients. Given the nominee will have a single vote (regardless of the number of PIBS it holds and the number of clients it represents), in practice the nominee may not be prepared to vote, given the difficulty of casting that single vote in a manner which reflects the views of all its clients, and the relative insignificance of that single vote in the context of all the votes which may be cast by members of the Society.

8. Do the PIBS pay interest?

Whilst the PIBS Conditions contain provisions which set out how interest payments will be calculated if they are to be paid, the Board is entitled, in its sole discretion, to cancel any interest payment (in whole or in part) by passing a resolution within 30 days preceding the relevant scheduled interest payment date. PIBS holders will have no right to cancelled interest at any time. The cancellation of interest is not a default by the Society, and does not give rise to any restrictions or requirements on the Society, other than a requirement to give notice of the passing of the resolution. Accordingly, there can be no assurance that interest payments will be paid on the PIBS.

The Society has not made any interest payments on the PIBS since April 2010. From 2009 up until 2018, interest payments on the PIBS were aligned with distribution payments on the Society's profit participating deferred shares (**PPDS**).

Under the Society's capital management exercise in 2018, it repurchased and cancelled all of its PPDS, and the vast majority of its PIBS. As part of that exercise, the Society published the Board's distribution policy with respect to future payments of interest on PIBS which remain outstanding following the exercise. Under that policy, if the Board elects, in its sole discretion, to make any future payments of distributions on its PIBS, such payments will be made only if and to the extent

that they would have been permitted had the capital management exercise 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 PIBS Conditions (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.

Under this policy, is it likely that no interest payments will be made on the PIBS in the near term, 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 PIBS Conditions not to make interest payments on the PIBS. The Board will continue to keep this policy under review, having regard to its duties to act in the interests of the members of the Society as a whole.

***Disclaimer:** This Q&A is not intended as, and must not be taken to be, investment, financial, legal, accounting, tax or any other advice or any recommendation to acquire, hold or dispose of any PIBS. PIBS are a complex investment and will not be suitable for all investors. An investment in PIBS involves significant risk. PIBS holders, or prospective investors in PIBS, should ensure they fully understand the risks and benefits associated with an investment in PIBS and should seek their own professional investment, legal, accounting, tax, financial or other advice as they consider appropriate.*

This Q&A was most recently reviewed by the Society on 18th May 2018. Please note that information contained in this Q&A may have been superseded after this date.