WEST BROMWICH
BUILDING SOCIETY

(incorporated in England under the Building Societies Act 1986 and registered with the Financial Services Authority with registered number 651B)

£75,000,000
6.15 per cent. Permanent Interest Bearing Shares

Issue Price: 99.828 per cent.

West Bromwich Building Society (the "**Society**") will issue £75,000,000 6.15 per cent. Permanent Interest Bearing Shares (the "**PIBS**"), comprising 75,000 PIBS of £1,000 each, at an issue price of 99.828 per cent. of their principal amount. Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**" and "**FSMA**" respectively) for the PIBS to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the PIBS to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market (the "**Market**"). References in this Prospectus to PIBS being "listed" (and all related references) shall mean that such PIBS have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC.

Attention is drawn to the description in "Certain Provisions of the Act and Requirements of the Supervisory Authority" on page 25 of this document of the ways in which a building society can, without the consent of holders of permanent interest bearing shares, amalgamate with or transfer its rights and obligations to another building society or a company pursuant to the relevant legislation.

It is anticipated that the PIBS will be issued in registered form on 29 July 2005, conditionally upon the PIBS being admitted to the Official List and to trading on the Market, which in each case is expected to occur on 29 July 2005. The listing of the PIBS will be expressed as a percentage of their principal amount.

The PIBS will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986, as amended (the "Act"), and will not be protected deposits for the purposes of the Financial Services Compensation Scheme established under FSMA. Attention is drawn to certain characteristics of the PIBS as described in "Risk Factors" on pages 9 to 12 of this document.

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only at the option of the Society on 5 April 2021 or any Interest Payment Date (as defined in "Special Conditions of Issue of the PIBS – Interest" on page 17 of this document) thereafter or in certain limited circumstances, as described in "Special Conditions of Issue of the PIBS – Repayment" on page 20 of this document, in each case subject to the consent of the Financial Services Authority.

The PIBS are expected to be rated Baa2 by Moody's Investors Service, Inc. and BBB+ by Fitch Ratings Limited. Moody's Investors Service, Inc. define a Baa2 rating as medium-grade obligations (i.e., they are neither highly protected nor poorly secured), for which interest payments and principal security appear adequate for the present but certain elements of which may be lacking or may be characteristically unreliable over any great length of time; such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well; the modifier 2 indicates a mid-range ranking within the Baa generic rating category. Fitch Ratings Limited define a BBB+ rating as good credit quality; indicating that there is currently a low expectation of credit risk; the capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity; "+" denotes relative status within the BBB rating category. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The information contained in this document is intended for sophisticated investors capable of understanding the nature of the PIBS and the risks attaching to them. There are fundamental differences between the PIBS and ordinary share accounts and deposit products of building societies. A number of these differences significantly increase the risk element involved in investing in the PIBS. Accordingly, attention is drawn to certain characteristics of the PIBS as described in "Risk Factors" set out on pages 9 to 12 of this document.

Barclays Capital

26 July 2005

*This document comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Society and its subsidiary undertakings (together the "**Group**") and the PIBS. The Society accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Society which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below). This Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

*No person is authorised to give any information or to make any representation not contained in this document and any information or representation not contained in this document must not be relied upon as having been authorised by the Society or Barclays Bank PLC (the "**Manager**"). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society since the date of this document.*

*The PIBS have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**"), and may not be offered or sold within the United States other than in accordance with the U.S. securities laws and regulations.*

This document does not constitute an offer of, or an invitation by or on behalf of the Society or the Manager to subscribe for or purchase, any of the PIBS. The distribution of this document and the offering of the PIBS in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Society and the Manager to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the PIBS and on distribution of this document, see "Marketing Arrangements" on page 79 of this document.

*In connection with the issue of the PIBS, Barclays Bank PLC (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot PIBS (provided that the aggregate principal amount of the PIBS allotted does not exceed 105 per cent. of the aggregate principal amount of the PIBS) or effect transactions with a view to supporting the market price of the PIBS at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the PIBS is made, and if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the PIBS and 60 days after the date of the allotment of the PIBS.*

*In this document, unless otherwise specified or the context otherwise requires, references to "**pounds**", "**pence**", "**sterling**", "**£**" and "**p**" are to the currency of Great Britain and Northern Ireland (the "**United Kingdom**").*

*Terms used in this document shall, unless otherwise defined, or as the context otherwise requires, have the same meanings as are given to them in the Act or, as the case may be, the Rules of the Society (the "**Rules**") or the Memorandum of the Society (the "**Memorandum**").*

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DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited consolidated annual financial statements of the Society for the financial year ended 31 March 2004 together with the audit report thereon, which has been previously published and filed with the Financial Services Authority. Such document shall be deemed to be incorporated in, and form part of this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

SUMMARY OF THE PROSPECTUS

This summary must be read as an introduction to this Prospectus and any decision to invest in the PIBS should be based on a consideration of the Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each Member State of the European Economic Area no civil liability will attach to the Society in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Description of the Society

The Society was formed on 23 April 1849. The Society is incorporated in England under the Act for an unlimited duration and is treated as having permission under Part IV of the FSMA to carry on all of the regulated activities which it was authorised to carry on under the Act prior to 1 December 2001.

As at 31 March 2005 based on its asset value the Society was the ninth largest building society in the United Kingdom with assets of £5.6 billion. During the financial year ended 31 March 2005 the Society had, on average, 798 employees.

The Society operates in accordance with the Act, regulations made thereunder and the Rules and the Memorandum. The principal purpose of the Society as set out in clause 3 of its Memorandum is to make loans that are secured on residential property and are funded substantially by its members. The Group's principal operating objective is to be a high-quality provider of building society services of retail savings and mortgages to an increasing number of customers.

The Group obtains funds from the retail market through a range of variable rate instant access and notice accounts, supplemented by fixed rate/fixed term accounts, which are predominantly hedged. The Group also raises funds in the wholesale money markets and has previously arranged both medium-term funding and bilateral and syndicated bank facilities. The Society has, in the last financial year, completed its inaugural securitisation issue.

Funds are advanced primarily to borrowers on the security of first mortgages on freehold and leasehold residential property. The Society lends to borrowers on the security of commercial property and typically holds 15-20 per cent. of its assets in high-quality money market instruments to provide operating liquidity.

The Society has three main subsidiaries; West Bromwich Mortgage Company Limited, West Bromwich Homes Limited and West Bromwich Commercial Limited.

Risk Factors

Investors should understand the risks of investing in the PIBS before they make their investment decision. They should make their own independent decision to invest in the PIBS and decide whether an investment in such PIBS is appropriate or proper based upon their own judgement and upon advice from such advisors as they consider necessary.

Investors should be aware that the PIBS are undated and subordinated and that the terms of the PIBS vary considerably from the terms of ordinary share accounts and deposit products of building societies. They should particularly note the following characteristics of the PIBS that are described in "Risk Factors" on pages 9 to 12:

(a) Permanence – the PIBS will not be withdrawable at the option of the PIBS holders;

(b) Liquidity – there is no guarantee that the investor will be able to liquidate its investment in the PIBS;

(c) Capital value of investment – there is a real chance that the investor will make a capital loss;

(d) Subordination – the PIBS are subordinated to all other liabilities of the Society other than liabilities in respect of other deferred Shares;

(e) Investor protection – the PIBS are not protected deposits for the purpose of the Financial Services Compensation Scheme;

(f) Payments of interest may be missed – interest will not be payable if it would result in the Society's capital falling below prescribed levels or where the Board cancels or reduces interest payable;

(g) Interest is not cumulative – if no interest payment is made, such interest will be cancelled;

(h) Rights – the rights of PIBS holders are markedly different to shareholders in a company with, for example, each PIBS holder only having one vote at a general meeting of the Society, irrespective of the number of PIBS it holds;

(i) Amalgamation of the Society and transfer of its engagements – if the Society amalgamates with another society or transfers all or part of its engagements the PIBS will not become payable but will become deferred shares;

(j) Credit ratings may not reflect all risks – the credit ratings may not reflect the potential impact of all risks relating to structure, market and other factors;

(k) Taxation of Interest – interest will be paid without withholding or deduction for tax under current laws but this could change; and

(l) No limitation on issuing debt or senior or *pari passu* securities – there is no restriction on the amount of debt which the Society may issue that ranks senior to the PIBS.

In addition, attention is also drawn to the following factors, that are described in "Risk Factors" on pages 9 to 12, that may affect the Society's ability to fulfil its obligations under the PIBS:

(a) United Kingdom Property Market – one of the Society's primary activities is mortgage lending in the United Kingdom with loans secured against residential and commercial property;

(b) Personal Financial Services Market – developments in this market and increased competition could have an adverse effect on the Society's financial position;

(c) Regulation – the Society is regulated by the FSA;

(d) Financial Risks – control of financial risk is one of the most important risk factors for financial institutions;

(e) Accounting Standards – the Society has adopted new accounting standards for reporting periods after 31 March 2005 that may have a material impact on its financial statements;

(f) Basel Capital Requirements Directive – the Basel Committee has issued proposals for reform of the 1988 Capital Accord which places enhanced emphasis on market discipline and sensitivity to risk; and

(g) European Monetary Union – if the United Kingdom joins the European Monetary Union there is no assurance that this would adversely affect investors in the PIBS.

Description of the PIBS

General

The Society will issue £75,000,000 6.15 per cent. PIBS, comprising 75,000 PIBS of £1,000 each, at an issue price of 99.828 per cent. of their principal amount.

The PIBS will be deferred shares in the Society for the purposes of section 119 of the Act and will not be protected deposits for the purposes of the Financial Services Compensation Scheme established under the FSMA.

Form and Denomination

The PIBS are in registered form and are available and transferable in accordance with the Rules in amounts and integral multiples of £1,000.

PIBS Register

The Society will appoint Lloyds TSB Registrar (the "**Registrar**") to act as registrar in respect of the PIBS under the terms of a registrar agreement (the "**Registrar Agreement**") to be dated 29 July 2005 and made between the Society and the Registrar.

Pursuant to the Registrar Agreement, the Society shall procure that the Registrar maintains the PIBS Register, in which shall be entered the name and address of each PIBS holder.

The Registrar shall, on behalf of the Society, issue a PIBS Certificate in respect of each holding of all PIBS held by each PIBS holder (or, in the case of a joint holding, to the joint holder whose name appears first in the PIBS Register in respect of such joint holding) within 14 days after one is requested.

Interest

The PIBS bear interest from and including 29 July 2005 to but excluding 5 April 2021 at the rate of 6.15 per cent. per annum and thereafter at a rate calculated by an Agent Bank as more fully described in Condition 4, in arrear by half-yearly instalments on 5 April and 5 October in each year, commencing on 5 April 2006. Interest on the PIBS is non-cumulative.

Repayment

The PIBS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no specified final maturity.

The Society may elect to repay all, but not some only, of the PIBS on 5 April 2021 or on any Interest Payment Date thereafter at their principal amount together, subject to Conditions 4(3)(a) and 4(3)(b), with any interest accrued to but excluding the date of repayment.

Payments

Payments in respect of the PIBS will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted on the business day immediately preceding the relevant due date and made payable to the PIBS holders (in the case of a joint holding of PIBS, the Representative Joint Shareholder) appearing in the PIBS Register in respect of the PIBS of which he is the holder at the close of business on the fifteenth day before the relevant due date (the "**Record Date**") at the addresses shown in the PIBS Register on the Record Date.

Tax

All payments in respect of the PIBS shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law.

For a description of applicable United Kingdom Taxation Considerations see "United Kingdom Taxation" on page 78.

Successions and transfers

Upon an amalgamation by the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements to any extent to another building society under section 94 of and Schedule 16 to the Act, the PIBS shall become deferred shares in the amalgamated or transferee building society (as appropriate) without any alteration in their terms.

Further Issues

The Society shall be at liberty from time to time without the consent of the PIBS holders to create and issue further permanent interest bearing shares as more fully described in Condition 11.

Governing Law

The rights and obligations in respect of the PIBS are governed by, and shall be construed in accordance with, English law.

Rating

The PIBS are expected to be rated Baa2 by Moody's Investors Service, Inc. and BBB+ by Fitch Ratings Limited.

Listing and admission to trading

Application has been made to the UK Listing Authority for the PIBS to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange for the PIBS to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

Selling Restrictions/Marketing Arrangements

There are restrictions on the sale of PIBS and the distribution of offering material set out in "Marketing Arrangements" on page 74.

Overview of Certain Provisions of the Rules of the Society and the Act relating to the PIBS

On pages 13 to 15 there is an overview of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the PIBS holders.

Certain Provisions of the Act and Requirements of the Supervisory Authority

On pages 25 to 26 there is a section on certain provisions of the Act and the requirements of the Financial Services Authority in its role as the Supervisory Authority.

Use of Proceeds

The net proceeds will be used by the Society to strengthen its capital base and to continue the ongoing development of the Society's business.

RISK FACTORS

Investors should be aware that the PIBS are undated and subordinated and that the terms of the PIBS vary considerably from the terms of ordinary share accounts and deposit products of building societies. They should particularly note the following characteristics of the PIBS:

(a) **Permanence** – The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only at the option of the Society on 5 April 2021 or any Interest Payment Date (as defined in "*Special Conditions of Issue of the PIBS — Interest*") thereafter or in certain limited circumstances, as described in "Special Conditions of Issue of the PIBS — Repayment", in each case subject to the permission of the Financial Services Authority (the "**FSA**"), which expression shall include any successor body performing for the time being the same or similar functions in relation to building societies in the United Kingdom. The Society is under no obligation to the investor to seek the FSA's permission to repay the PIBS and the FSA has complete discretion as to whether to give such permission. There is no expectation of repayment unlike normal investment accounts where the Society must return the capital investment (plus any accrued interest) to the investor as and when they demand it (subject, of course, to the stated period of notice etc. on that particular account).

(b) **Liquidity** – In order to realise its capital investment in the PIBS, an investor must either go to an established secondary market or look to make a private sale. There is **no guarantee that the investor will be able to liquidate its investment in the PIBS** for cash and/or because the future liquidity of the secondary market is not guaranteed and/or the investor may be unable to find any potential private purchasers. Therefore, there is a risk that an investor cannot realise its investment in the PIBS when it wishes to do so.

(c) **Capital value of investment** – As the capital value of the PIBS will vary with market interest rates, the market perception of the value of the Society and the availability of purchasers, there is a **real chance that the investor will make a capital loss** when it comes to sell its PIBS.

(d) **Subordination** – The PIBS are subordinated to all other liabilities of the Society other than liabilities in respect of other deferred shares (as defined in the Rules). In a winding-up or dissolution of the Society, the claims of the PIBS holders will rank behind all other creditors of the Society and the claims of Members holding shares (other than deferred shares, as so defined) as to principal and interest. Investors should be aware that this subordination is a primary factor behind the higher interest rate that is paid on the PIBS when compared to other investment products. The higher interest reflects the fact that there is a higher risk involved with this investment.

(e) **Investor protection** – Unlike normal building society investment products, the PIBS are not protected deposits for the purposes of the Financial Services Compensation Scheme.

(f) **Payments of interest may be missed** – Interest in respect of the PIBS will not be payable where to make payment would result in the Society's capital falling below prescribed levels or where the Board passes a resolution cancelling or requiring a reduction in the interest payable, as more fully explained in "*Special Conditions of Issue of the PIBS — Interest*". The Board may pass any such resolution at any time and in the event it does pass any such resolution, PIBS holders will not be entitled to any compensation in respect of the missed payments.

(g) **Interest is not cumulative** – If the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (f) above, such interest will be cancelled.

(h) **Rights** – The rights of the PIBS holders are markedly different from those of shareholders in a company, e.g. as to voting rights and protection of minorities. For example, as indicated in paragraph 6 on page 14 of this document, each PIBS holder only has one vote at general meetings of the Society, irrespective of the number of PIBS it holds, whereas shareholders at a general meeting of a company would normally have one vote on a poll for each share held.

(i) **Amalgamation of the Society and transfer of its engagements** – If the Society amalgamates with, or transfers all or part of its engagements to, another building society, the PIBS will not become repayable as a consequence thereof, but will become deferred shares in that society.

If the Society transfers the whole of its engagement to any other body, the transfer will incorporate arrangements to secure that the PIBS are effectively converted into perpetual subordinated debt of that body, and do not become repayable other than at the option of that body on 5 April 2021 or any Interest Payment Date (as defined in "*Special Conditions of Issue of the PIBS — Interest*") thereafter or in certain limited circumstances, as described in "*Special Conditions of Issue of the PIBS — Repayment*", in each case subject to the permission of the FSA.

(j) **Credit ratings may not reflect all risks** – The credit ratings assigned to the PIBS by Moody's Investor Services, Inc. and by Fitch Ratings Limited may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the PIBS. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the relevant rating agency at any time.

(k) **Taxation of Interest** – Because the PIBS will be listed on a recognised stock exchange, interest will be paid without withholding or deduction for tax under current law. Nevertheless, tax may be withheld or deducted if there is a change of law or if the PIBS cease to be listed on a recognised stock exchange.

(l) **No limitation on issuing debt or senior or *pari passu* securities** – There is no restriction on the amount of debt which the Society may issue which ranks senior to the PIBS or on the amount of securities which the Society may issue which rank senior to, or *pari passu* with, the PIBS. The issue of any such debt or securities may reduce the amount recoverable by PIBS holders in the event of a winding-up of the Society and/or may increase the likelihood of a cancellation of payments under the PIBS.

Investors' attention is also drawn to the following factors that may effect the Society's ability to fulfil its obligations under the PIBS:

(a) **United Kingdom Property Market:** One of the Society's primary activities is mortgage lending in the United Kingdom with loans secured against residential and commercial property. A downturn in the United Kingdom economy could have a negative effect on the housing market particularly if this results in an increased level of unemployment or significantly higher interest rates. Property prices may fall and could result in losses being incurred by lenders on loans that have defaulted. This could have consequences for the Society's funding costs and credit ratings if there was deemed to be a material deterioration in the quality of the mortgage portfolio.

(b) **Personal Financial Services Market:** The United Kingdom housing and savings markets are competitive. Developments in this market and increased competition could have an adverse effect on the Society's financial position.

(c) **Regulation:** The Society is regulated by the FSA. The FSA regulates the sale of residential mortgages and general insurance products. The regulatory regime requires the Society to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Society fails to be compliant with relevant regulations, there is a risk of an adverse impact on the business due to sanctions, fines or other action imposed by the regulatory authorities.

The FSA, and other bodies such as the Financial Ombudsman Service could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Society may incur costs in complying with these regulations or obligations relating to our business, including potential compensation and costs relating to sales advice given to retail customers.

(d) **Financial Risks:** Control of financial risk is one of the most important risk factors for financial institutions. Financial risk includes credit, liquidity, operational and market risk. Failure to control these risks can result in material adverse effects on the Society's financial performance and reputation.

Credit Risk: Credit risk is the potential risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due. The Issuer's retail credit exposures are managed in accordance with the board approved lending policy and through credit scoring systems. Wholesale counterparty exposures are managed through the setting of limits to individual counterparties, countries, terms of exposure and type of financial instrument.

Liquidity Risk: The Society's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Society and to be in a position to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management of the growth of the business.

Operational Risk: Operational risk is the potential risk of financial loss or impairment to reputation arising from failures in operational processes or the systems that support them. To minimise operational risk, the Society maintains a system of control commensurate with the characteristics of the business and the markets in which it operates best practice principles and regulatory considerations.

Market Risk: Market risk is the risk to earnings from changes in interest rates, foreign exchange rates and the prices of financial securities. The Society offers numerous mortgage and savings products with varying interest rate features and maturities that create potential interest rate exposures. The Society manages this exposure on a continuous basis, with limits set by the board of directors, using a combination of on and off balance sheet instruments. In addition to raising funds through the sterling money markets, capital markets and retail savings market, the Issuer raises wholesale funds denominated in foreign currency. The Society's policy is to hedge exchange rate exposure to ensure there is no significant exposure to foreign exchange fluctuations or changes in foreign currency interest rates.

The Society's risk management structure is the overall responsibility of the board of directors. Assisting the board, the audit and risk committee of non-executive directors considers all matters relating to regulatory, prudential and accounting requirements that may affect the Society and its subsidiaries.

The Society has a formal structure for managing financial risks, including established risk limits, reporting lines, governance committees, mandates and other control procedures.

(e) **Accounting Standards:** The Society has adopted new accounting standards for reporting periods beginning after 31 March 2005 that may have a material impact on its financial statements. In June 2002, the Council of the European Union ("**EU**") adopted a regulation requiring all listed EU companies to apply International Financial Reporting Standards ("**IFRS**") (previously known as International Accounting Standards or "**IAS**") in their consolidated financial statements for financial years commencing on or after 1 January 2005. The adoption of IFRS may have a material impact on a number of important financial items, including, among others, the timing of recognition of sales and other revenues, accounting for share-based compensation and employee benefit plans, goodwill and intangibles, marketable securities and derivative instruments. The adoption of IFRS may also affect the classification of certain balance sheet items as debt or equity and have a significant impact on the reporting of business segments. The adoption of IFRS will therefore affect the valuation methods that analysts use to measure and evaluate the Society's performance. IFRS could also have an effect on the Society's debt covenants and other contractual obligations. In particular, its covenants linked to balance sheet ratios and income statement measures could be significantly affected by the adoption of the IFRS in ways that are difficult to predict at this time.

(f) **Basel Capital Requirements Directive:** The Basel Committee has issued proposals for reform of the 1988 Capital Accord and has proposed a framework, which places enhanced emphasis on market discipline and sensitivity to risk. The Society cannot predict the precise effects of the potential changes that might result from implementation of the proposals on its own financial performance. Prospective investors in the PIBS should consult their own advisers as to the consequences for them of the potential application of the New Basel Capital Accord proposals.

(g) **European Monetary Union:** If the United Kingdom joins the European Monetary Union there is no assurance that this would not adversely affect investors in the PIBS. It is possible that the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event: (i) all amounts payable in respect of any PIBS denominated in sterling may become payable in Euro; (ii) the law may allow or require the PIBS to be re-denominated into Euro and additional measures to be taken in respect of such PIBS; and (iii) there may no longer be available published or displayed rates for deposits in sterling used to determine the rates of interest on such PIBS or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the PIBS.

OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE PIBS

The rights and restrictions attaching to the PIBS will be governed by the Rules, certain provisions of the Act and the "Special Conditions of Issue of the PIBS" (the "**Conditions**") set out on pages 16 to 24 of this document. Set out below is an overview of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the PIBS holders, together with certain explanatory notes which are italicised. Terms defined in the Rules will, unless the context otherwise requires, have the same meanings when used in this summary.

1 General

The person whose name is entered in the PIBS Register (as defined below) as the holder of PIBS is a Shareholding Member of the Society.

Each PIBS holder (as defined in the Conditions), and all Persons claiming through him or on his behalf or under the Rules, shall be bound by the Rules and by the Memorandum and, where applicable, the Additional Rules (which are set out in the Rules).

2 Register

The Society shall maintain a PIBS Register for the purposes of the PIBS (the "**PIBS Register**"), in which shall be entered the name and address of each PIBS holder. Each PIBS holder shall notify the Society immediately of any change of name or address and shall produce such evidence of such change as the Society may require.

Transfers and other documents or instructions relating to or affecting the title to any PIBS shall also be recorded in the PIBS Register. No charge shall be made in respect of any entry in the PIBS Register. The PIBS Register shall be maintained at the Principal Office, or at such other place as the board of directors of the Society (the "**Board**") considers appropriate.

The Society has appointed Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as its registrar for the PIBS issue.

3 PIBS Certificate

Each PIBS holder, within one month after becoming entered in the PIBS Register as the holder of PIBS, shall, if he shall make a written request to the Society at the time of applying to be so entered, be supplied by the Society with a duly executed PIBS Certificate (a "**PIBS Certificate**") (which shall not be the property of the Society).

Each PIBS holder entered into the records of the Society who has not previously requested to be supplied by the Society with a PIBS Certificate shall within one month after making a written request to the Society be supplied by the Society with a PIBS Certificate.

Save as aforesaid, nothing in the Rules requires a PIBS to be evidenced by a PIBS Certificate or other written instrument. PIBS Certificates shall be made available at the offices of the Registrar.

Notwithstanding these provisions of the Rules regarding the issue of PIBS Certificates, the Society will procure that a PIBS Certificate is issued to all PIBS holders who hold their PIBS in certificated form, regardless of whether or not one is requested, within 14 days after the issue or lodgement of any instrument of transfer of PIBS. The PIBS will also be capable of being held in uncertificated form.

4 Replacement of a PIBS Certificate

A PIBS holder losing his PIBS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office and to the Registrar. If a PIBS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new PIBS Certificate representing the same PIBS shall be issued to that PIBS holder upon request, subject to delivery up of the old PIBS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Society and the Registrar may think fit and to payment of any exceptional expenses of the Society and the Registrar incidental to its investigation of the evidence of such alleged loss, theft or destruction. Where a holder of a certificated PIBS has sold part of his holding he will be entitled to a PIBS Certificate for the balance without charge.

5 Transfers

A PIBS holder may transfer his PIBS to any Person and no fee shall be charged in respect of a transfer. No transfer of PIBS shall be valid unless made in a form approved by the Board and until registered in the PIBS Register, but such transferee shall be entitled to have his name entered in the PIBS Register following notice by him to the Society of such a transfer, such notice to be made or given in the form endorsed on the PIBS Certificate or in such other manner as the Board in its absolute discretion may permit.

The registration of transfers of the PIBS may be suspended at such times and for such periods as the Board may determine, but not for more than 30 days in the year, and notice of such suspension shall be given by advertisement in at least one national daily newspaper.

A fully paid PIBS shall be free from all liens in respect of liabilities to the Society.

Two or more Persons may jointly hold a PIBS. No PIBS shall be issued to the holders, or be held by them at any time, as tenants in common.

The Society may decline to issue any PIBS, or register any transfer of PIBS, to more than four Persons jointly. Joint PIBS holders shall be entitled to choose the order in which they are named in the records of the Society.

6 Meetings

As Members of the Society, the PIBS holders will, subject to the provisions of the Rules, be entitled to receive notice of, to propose resolutions at, to attend, to be counted in a quorum and to vote or appoint a proxy at general meetings of the Society.

A PIBS holder is entitled to vote on a resolution (whether an Ordinary Resolution or Special Resolution or a Shareholding Members' Resolution, but not a Borrowing Members' Resolution) if:

(a) being an Individual, he is not a minor on the voting date or, where he is voting by proxy, on the date of the meeting at which the resolution is intended to be moved; and

(b) in the case of a joint Shareholding, he is the Representative Joint Shareholder; and

(c) he was entered in the PIBS Register as the holder of PIBS:

  (i) at the end of the last Financial Year before the voting date; or

  (ii) if the voting falls during that part of the Financial Year which follows the conclusion of the Annual General Meeting commenced in that year, at the beginning of the period of 56 days immediately preceding the voting date for Members voting in person at a special general meeting or a postal ballot,

as the case may be; and

(d) he has not ceased to be a PIBS holder at any time between the time referred to in (c)(i) and (ii) above (as applicable) and the voting date.

At a general meeting of the Society, each PIBS holder will have one vote regardless of the principal amount of PIBS held by that PIBS holder or whether the PIBS holder is otherwise a Member of the Society.

7 Winding-up and dissolution

Upon the winding-up of the Society, or upon it being dissolved by consent, if there are insufficient assets to repay all Members the amounts paid up on their Shares, no repayments shall be made in respect of any deferred Share (including the PIBS) until after all other Members have been repaid in full.

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members (including PIBS holders) of the amount of their Shares (together with interest due thereon) according to their priority under their respective terms and conditions of issue, shall be applied as follows:

(a) up to 20 per cent. to holders of all or some of the deferred shares in the Society (including the PIBS). The proportion (if any) of such 20 per cent. to which any particular issue of deferred shares (including the PIBS) is entitled shall be set forth in the terms and conditions of issue of that issue of deferred shares (*see note below which describes the way in which the Society has determined the exercise of this discretion*); and

(b) the remainder among Qualifying Members (other than holders of deferred shares (including the PIBS)) in proportion to the value of their Shareholdings.

Notwithstanding these provisions of the Rules regarding the application of any surplus on a winding-up or dissolution of the Society, the PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.

If there are insufficient assets to repay all Members the amounts paid up on their Shares, no repayments shall be made in respect of any deferred shares until after all other Members have been paid in full.

For the purposes of these provisions of the Rules, "**Qualifying Members**" means Persons who hold on the date of commencement of the dissolution or winding-up, and have held throughout the period of two years up to that date, Shares to the value of not less than £100.

The Society has determined that, in exercising its discretion regarding the distribution of any surplus on a winding-up or dissolution of the Society referred to in sub-paragraph 7(a) above, no proportion of any final surplus will be paid to the holders of PIBS.

8 Disputes and legal proceedings

Subject to the provisions of section 1 of the Courts and Legal Services Act 1990, section 85 of and Schedule 14 to the Act provide that no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Pursuant to section 1 of the Courts and Legal Services Act 1990, the High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

9 Unclaimed interest

In certain circumstances set out in the Rules, the Society shall be entitled to sell for the best price reasonably obtainable any PIBS in respect of which no interest has been claimed during a period of 12 years. The Society must first give written notice to the UK Listing Authority of its intention to sell the PIBS. The Society shall be obliged to account (as debtor and not as trustee) to the PIBS holder or any other Person entitled to the PIBS for the net proceeds of sale of the PIBS.

SPECIAL CONDITIONS OF ISSUE OF THE PIBS

The following are the special conditions of issue of the PIBS in the form in which, subject to the removal of the wording in italics which does not form part of the special conditions, they will appear on the reverse of each PIBS Certificate:

The PIBS holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of the Rules (as defined below) of the Society (as defined below). The PIBS (as defined below) are also issued subject to, and with the benefit of, these special conditions of issue (the "**Conditions**"). In the event of inconsistency between the Rules and these Conditions, the Rules will prevail.

1 General

(1) The "**Society**" means West Bromwich Building Society.

(2) The "**PIBS**" means £75,000,000 6.15 per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any further permanent interest bearing shares issued pursuant to Condition 11 and forming a single series with the PIBS.

(3) "**PIBS holder**" means a Person whose name is entered in the PIBS Register as the holder of PIBS or, in the case of a joint holding of PIBS, the first person whose name is entered in the PIBS Register in respect of the joint holding of the PIBS.

(4) "**PIBS Register**" means the records of the Society maintained for the purposes of the PIBS.

(5) "**Registrar**" means Lloyds TSB Registrars or such other registrar appointed by the Society from time to time in respect of the PIBS.

(6) Terms defined in the Rules of the Society for the time being (the "**Rules**") will, unless the context otherwise requires, have the same meanings when used in these Conditions.

(7) The PIBS:

(a) are deferred shares for the purposes of section 119 of the Act;

(b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000;

(c) are not withdrawable; and

(d) are Permanent Interest Bearing Shares for the purposes of the Rules.

(8) The expressions "**Creditors**" and "**Relevant Supervisory Consent**" shall have the meanings given thereto in Conditions 5(3) and 5(6) respectively.

(9) Upon a transfer of PIBS by a PIBS holder the Society will procure that the new PIBS holder is issued with a PIBS Certificate within 14 days after the lodgement of the instrument of transfer if he holds his PIBS in certificated form. The PIBS Certificate will be made available at the offices of the Registrar.

(10) The PIBS may be held jointly by up to four Persons.

(11) Rights to Conversion Benefits to which a PIBS holder may become entitled by reason of his holding of PIBS shall not be required to be assigned to a charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society for the time being. In the event that a holder of PIBS is a Member of the Society other than by reason of its holding of PIBS and has made a declaration to assign any Conversion Benefits to a charity, that assignment declaration shall not apply to Conversion Benefits derived from his holding of PIBS. If there is a conflict between these Conditions and any other provisions for the assignment of Conversion Benefits to which a Member is subject, then these Conditions shall prevail in relation to Conversion Benefits derived from PIBS held by any PIBS holder, whenever the assignment of Conversion Benefits is made. For these purposes, "**Conversion Benefits**" shall mean any benefits under the terms of any future transfer of the Society's business to a company and, if the Society merges with any other building society, "**Society**" shall, after the date of such merger, extend to such other society.

2 Form and denomination

The PIBS are in registered form and are available and transferable in accordance with the Rules in amounts and integral multiples of £1,000.

3 PIBS Register

(1) The Society has appointed the Registrar to act as registrar in respect of the PIBS under the terms of a registrar agreement (the "**Registrar Agreement**") dated 29 July 2005 and made between the Society and the Registrar. PIBS holders are deemed to have notice of all the provisions of the Registrar Agreement applicable to them.

(2) Pursuant to the Registrar Agreement, the Society shall procure that the Registrar maintains the PIBS Register, in which shall be entered the name and address of each PIBS holder. Each PIBS holder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.

(3) A PIBS holder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may require to complete, execute and deliver a PIBS Certificate to such PIBS holder. On receipt of such documents, the Society shall instruct the Registrar to arrange for the authentication of, and the Registrar to deliver to, or to the order of, the person or persons named in such written order of a PIBS Certificate, registered in the name or names requested by such person or persons.

(4) Transfers and other documents or instructions relating to or affecting the title of any PIBS shall be recorded in the PIBS Register. No charge shall be made in respect of any entry in the PIBS Register. The PIBS Register shall be maintained at the principal office of the Registrar or at such other place as the Society and the Registrar shall agree.

(5) The Registrar shall, on behalf of the Society, issue a PIBS Certificate in respect of each holding of all PIBS held by each PIBS holder (or, in the case of a joint holding, to the joint holder whose name appears first in the PIBS Register in respect of such joint holding) within 14 days after one is requested.

4 Interest

(1) The PIBS bear interest from and including 29 July 2005 (the "**Issue Date**") to but excluding 5 April 2021 at the rate of 6.15 per cent. per annum and thereafter at a rate calculated in accordance with paragraph (2) below (each a "**Rate of Interest**") payable, subject as set out below, in arrear by half-yearly instalments on 5 April and 5 October in each year, commencing on 5 April 2006 (each an "**Interest Payment Date**"). The period from and including the Issue Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date is called an "**Interest Period**". Interest on the PIBS is non-cumulative.

Where it is necessary to calculate an amount of interest in respect of any PIBS for a period which is not an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, 29 July 2005) to (but excluding) the date on which the relevant interest is payable, divided by the product of (a) the actual number of days in the period from (and including) such Interest Payment Date (or, if none, 29 July 2005) to (but excluding) the next (or first) scheduled Interest Payment Date and (b) two.

(2) (a) The Rate of Interest payable in respect of the PIBS from and including 5 April 2021 in respect of each Reset Period (as defined below) shall be determined by such leading bank or investment banking firm in London as shall be appointed by the Society (the "**Agent Bank**") on the following basis. On the Determination Date (as defined below) relating to each Reset Period, the Agent Bank shall determine the Gross Redemption Yield (as defined below). The Rate of Interest for the relevant Reset Period shall be the aggregate of 2.80 per cent. per annum and the Gross Redemption Yield for that Reset Period, as determined by the Agent Bank.

In these Conditions:

"**Benchmark Gilt**" means, in respect of a Reset Period, such fixed income United Kingdom government security denominated in sterling having a maturity date on or about the last day of such Reset Period as the Agent Bank, with the advice of the Reference Market Makers, may determine to be appropriate;

"**Determination Date**" means, in relation to any Reset Period, the 45th day prior to the first day of such Reset Period; provided that if such day is not a day on which banks are open for business in London, it shall be postponed to the next such day;

"**Gross Redemption Yield**" means, in respect of a Reset Period, the gross redemption yield (as calculated by the Agent Bank on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8 June 1998 and as updated on 15 January 2002) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of each of the bid and offered prices of such Benchmark Gilt quoted by the Reference Market Makers at 11.00 a.m. (London time) on the relevant Determination Date on a dealing basis for settlement on the next following dealing day in London;

"**Reference Market Makers**" means three gilt edged market makers selected by the Agent Bank, failing which such other three persons operating in the gilt edged market as are selected by the Agent Bank;

"**Reset Date**" means 5 April 2021 and every fifth successive year thereafter; and

"**Reset Period**" means the period beginning on and including a Reset Date and ending on and including the day immediately preceding the next succeeding Reset Date.

(b) As soon as practicable after 11.00 a.m. (London time) on each Determination Date, the Agent Bank shall determine the Rate of Interest for the relevant Reset Period and calculate the amount of interest payable on each £1,000 principal amount of PIBS (the "**Interest Amount**") on each of the 10 Interest Payment Dates that fall after the commencement of the Reset Period to which such Determination Date relates. The Society shall cause such Rate of Interest, Reset Period and each such Interest Amount to be notified to the Registrar as soon as practicable after their determination and calculation and shall procure that the Registrar gives notice thereof to the PIBS holders.

(c) The Society may from time to time appoint any leading bank or investment banking firm in London (as determined by the Society) as the Agent Bank in substitution for any existing Agent Bank. In the event of the appointed office of the Agent Bank being unable or unwilling to continue to act as the Agent Bank, the Society shall forthwith appoint the London office of such other leading bank or investment banking firm in London to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(d) All notifications, opinions, advice, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4(2) by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Society, the Agent Bank, the Registrar and all PIBS holders and (in the absence as aforesaid) no liability shall attach to the Agent Bank or the Reference Market Makers in connection with the exercise or non-exercise of their powers, duties and discretions.

(3) (a) If, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board:

(i) after consultation with the Supervisory Authority (as defined below) and having taken appropriate legal advice, is of the opinion that on the relevant date, the Society is, or payment of the relevant interest payment will result in the Society being, or there is a reasonable likelihood that payment of the relevant interest payment will in the foreseeable future result in the Society being, in non-compliance with any requirement relating to capital adequacy imposed on the Society by or pursuant to the Financial Services and Markets Act 2000, including any statutory modification or re-enactment thereof; and

(ii) passes a resolution cancelling or, as the case may require, reducing the interest to such extent as may be necessary to secure that, in the opinion of the Board (after consultation with the Supervisory Authority and having taken appropriate legal advice), such payment would not cause or contribute to such non-compliance,

then the Society shall, as soon as practicable, give notice to all PIBS holders of such resolution in accordance with Condition 10(12), and such interest payment or part thereof, as the case may be, shall not be made. On the passing of a resolution cancelling or reducing an interest payment, each PIBS holder shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution.

(b) If, in circumstances other than as set out in Condition 4(3)(a) above, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board passes a resolution cancelling or requiring a reduction in the interest payable on such Interest Payment Date, then the Society shall, as soon as practicable, give notice to all PIBS holders of such resolution in accordance with Condition 10(12) and, subject to Condition 4(3)(c), such interest payment shall not be made. On the passing of any such resolution, each PIBS holder shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution.

Whilst Condition 4(3)(b) entitles the Society, in its sole discretion, to cancel, in whole or in part, any scheduled interest payment as required by current policy of the Supervisory Authority, it is the Society's intention not to cancel any part of a scheduled interest payment other than in the circumstances described in Condition 4(3)(a).

(c) If the Board passes a resolution cancelling or requiring a reduction in the interest payment on an Interest Payment Date pursuant to Condition 4(3)(b) then:

(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, for a period of 5 months following the passing of such resolution. For the purposes of this Condition, "**Mandatory PIBS**" means 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;

(ii) the Society shall, as soon as reasonably practicable:

(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 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 such case, any successor regulatory information service), of the passing of the resolution by the Board (together with a list of the Board members and their titles) and the cancellation (in whole or in part) of the relevant interest payment; and

(III) 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.

The Society will give notice of the special general meeting convened pursuant to sub-paragraph (III) above in accordance with the Rules, and such notice shall specify (A) the passing of the resolution by the Board (including a list of each director on the Board), (B) the reasons for the passing of such resolution and (C) the consequences for the Society of the passing of such resolution.

For the purpose of these Conditions:

"**Supervisory Authority**" means the Financial Services Authority (or any successor body performing for the time being the same or similar functions in relation to building societies (or, in the event that the Society transfers its business to a company under section 97 of the Act, companies of that nature) in the United Kingdom).

(4) Any amount representing principal of or interest on a PIBS in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after 12 years from the due date and shall revert to the Society.

5 Repayment

(1) The PIBS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no specified final maturity.

(2) The Society may, having obtained Relevant Supervisory Consent (as defined below) and having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with the Conditions, which notice shall be irrevocable, elect to repay all, but not some only, of the PIBS on 5 April 2021 or on any Interest Payment Date thereafter at their principal amount together, subject to Conditions 4(3)(a) and 4(3)(b), with any interest accrued to but excluding the date of repayment.

(3) The PIBS will become repayable on the date that an instrument or order is made or an effective resolution is passed for the winding-up or, otherwise than by virtue of section 93(5), section 94(10), section 97(9) or section 97(10) of the Act, dissolution of the Society but only if and subject to the condition that all sums due from the Society to Creditors claiming in the winding-up or dissolution have been paid in full.

For the purposes of these Conditions, "**Creditors**" means all creditors (including all subordinated creditors) of the Society and Shareholding Members (other than holders of deferred shares (including the PIBS)) as regards the principal and interest due in respect of their Shares.

(4) The claims of the PIBS holders in a winding-up or dissolution of the Society will be for the principal amount of their PIBS together, subject to Condition 4, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full. The PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.

(5) The Society may, having obtained prior Relevant Supervisory Consent and, for so long as the PIBS are admitted to the official list maintained by the competent authority designated under Part VI of the Financial Services and Markets Act 2000 (the "**UK Listing Authority**", which expression shall include any body appointed to perform such functions under any successor legislation), and admitted to trading on the London Stock Exchange plc's Gilt Edged and Fixed Interest Market (the "**Market**"), subject to and in accordance with the requirements from time to time of the UK Listing Authority and London Stock Exchange plc, purchase any of the PIBS. In the case of purchases by tender, tenders shall be made available to all PIBS holders alike.

(6) All PIBS repaid or purchased by the Society as aforesaid shall be cancelled forthwith and such PIBS may not be reissued or resold.

For the purposes of these Conditions, "**Relevant Supervisory Consent**" means consent by the Supervisory Authority to the relevant repayment or (as referred to in Condition 5(5)) purchase.

6 Payments

All payments in respect of the PIBS will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted on the business day immediately preceding the relevant due date and made payable to the PIBS holders (in the case of a joint holding of PIBS, the Representative Joint Shareholder) appearing in the PIBS Register in respect of the PIBS of which he is the holder at the close of business on the fifteenth day before the relevant due date (the "**Record Date**") at the addresses shown in the PIBS Register on the Record Date. In relation to payments of interest only, upon application of the PIBS holder (or in the case of a joint holding of PIBS, the Representative Joint Shareholder) to the Society, in the form from time to time prescribed by the Society, not less than 15 days before the due date for any interest payment in respect of his PIBS, the interest payment may be made by transfer on the due date or, if the due date is not a business day, on the immediately following business day to a sterling account with a bank or building society in the United Kingdom. In this Condition 6, "**business day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in England.

All payments in respect of the PIBS shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law.

For a description of applicable United Kingdom Taxation Considerations see "United Kingdom Taxation" on page 73.

7 Replacement of PIBS Certificates

A PIBS holder who has lost a PIBS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office and to the Registrar at its specified office. If a PIBS Certificate is damaged or alleged to have been lost, stolen or destroyed, a duplicate PIBS Certificate shall be issued by the Registrar, on behalf of the Society, to the PIBS holder upon request, subject to delivery up of the old PIBS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Society and the Registrar may think fit and to payment of any expenses of the Society and the Registrar in connection therewith. The duplicate PIBS Certificate will be made available at the offices of the Registrar.

8 Succession and transfers

(1) Upon an amalgamation by the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements to any extent to another building society under section 94 of and Schedule 16 to the Act, the PIBS shall become deferred shares in the amalgamated or transferee building society (as appropriate) without any alteration in their terms.

(2) Upon a transfer by the Society of the whole of its business to a successor in accordance with section 97 of the Act, the successor will, in accordance with section 100(2)(a) of the Act, assume as from the vesting date a liability (subject to this Condition 8(2)) to every qualifying Member of the Society as in respect of a deposit made with the successor corresponding in amount to the value of the qualifying Shares held by the Member in the Society. The liability so assumed by the successor in respect of each PIBS shall be the same as the liability in respect of a non-transferable subordinated deposit carrying the same rate of interest as the PIBS ranking behind any undated subordinated debt previously issued by the Society (each a "**Subordinated Deposit**"). Each Subordinated Deposit will be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the PIBS holder, in the subscription of a principal amount of undated subordinated bonds of the successor ranking behind any undated subordinated debt previously issued by the Society or its successor (the "**Bonds**") equivalent to the principal amount of the Subordinated Deposit and carrying the same Rate of Interest as the PIBS.

The terms of each Subordinated Deposit and the terms and conditions of the Bonds will be such as to secure in the opinion of the Board that they will be treated as capital designated perpetual subordinated debt (as referred to in Chapter CA of the Interim Prudential Sourcebook for Banks as replaced, amended or supplemented from time to time) or its equivalent (if any) as determined by the auditors of the Society for the purposes of capital adequacy regulations made from time to time by the Financial Services Authority or any other or successor body performing for the time being the same or similar functions in the United Kingdom in relation to companies of a similar nature.

The terms of the Subordinated Deposits and the terms and conditions of the Bonds will, not later than the time at which notice is given to Members of resolutions to be proposed to approve such transfer, be available for inspection by the PIBS holders at the Principal Office of the Society and the specified office of the Registrar at that time and, subject as provided above, will be determined by the Board in its absolute discretion.

(3) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 8(1) or (2) above will comply with the provisions of Condition 8(1) or, as the case may be, (2) above.

9 Variations of these Conditions

(1) These Conditions may only be varied by the Society with the consent in writing of the PIBS holders holding not less than three-quarters in principal amount of the PIBS for the time being outstanding or with the sanction of a resolution passed at a separate meeting of the PIBS holders held in accordance with Condition 10.

(2) The Society undertakes not to initiate any change to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the PIBS holders in that capacity.

(3) These Conditions do not limit the rights of Members to change the Rules.

Any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the PIBS holders in that capacity shall not limit any rights of any PIBS holder to bring an action for breach of contract against the Society in circumstances where the Society is in breach of these Conditions nor afford the Society any defence to any claim made in any such action.

10 Meetings of the PIBS holders

(1) The Society alone may at any time convene a separate meeting of the PIBS holders. Every meeting shall be held at such place as the Society may approve.

(2) At least 21 clear days' notice, calculated from the final date for the receipt of proxies under Condition 10(10), specifying the hour, date and place of the meeting shall be given to the PIBS holders entered in the PIBS Register 35 days prior to the date specified for the meeting by sending it by post to the addresses shown in the PIBS Register. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.

(3) Any person (who may, but need not, be a PIBS holder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the PIBS holders present shall choose one of their number who is present to be chairman.

(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 for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding PIBS or being proxies and representing in aggregate not less than three-quarters of the principal amount of the PIBS represented at such meeting voting in favour of such question.

(5) If within half an hour after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the PIBS holders present in person or by proxy at the adjourned meeting shall be a quorum.

(6) Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 10(2).

(7) A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.

(8) The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.

(9) Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the PIBS holders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless he is a PIBS holder or is a proxy thereof.

(10) A PIBS holder entitled to attend a separate meeting of the Society:

(a) may appoint one Person (whether a PIBS holder or not) as his proxy to attend and, on a resolution, to vote at such meeting instead of him; and

(b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed by an instrument in writing which shall be in such form and include such declarations as the Board may from time to time determine. The instrument shall enable the PIBS holder appointing the proxy to direct him how to vote and, if the instrument is not in the form specified by the Society or is not signed by the appointer, the appointment of the proxy shall be invalid. The appropriate forms of declaration shall, with such additional or amended wording as the Board may consider appropriate, be used in the case of a body corporate. If the appropriate declaration is not included in the instrument, the appointment of the proxy shall be invalid. The instrument appointing a proxy or a representative shall be deposited at the Principal Office not less than two clear days before the day appointed for holding the meeting, or adjourned meeting, and in default the instrument shall not be treated as valid. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll but, save as provided by this Condition 10(10), a proxy shall have no right to speak at the meeting. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or mental disorder of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of a PIBS in respect of which the proxy is given, provided that no intimation in writing of such death, mental disorder, revocation or transfer shall have been received by the Society at its Principal Office before the commencement of the meeting or adjourned meeting at which the proxy is used.

(11) Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the PIBS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution. Notice of any resolution duly passed by the PIBS holders shall be given in writing to each PIBS holder by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.

(12) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.

(13) The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

11 Further issues

The Society shall be at liberty from time to time without the consent of the PIBS holders to create and issue further permanent interest bearing shares either:

(a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding permanent interest bearing shares of any series (including the PIBS); or

(b) upon such other special terms of issue as the Society may at the time of issue determine provided that the Society shall not issue any permanent interest bearing shares ranking ahead of the PIBS.

12 Notices

All notices regarding the PIBS shall be valid if sent by post to the PIBS holders at their respective addresses in the PIBS register. Any such notice shall be deemed to have been given on the second day following the mailing of such notice.

13 Governing law

The rights and obligations in respect of the PIBS are governed by, and shall be construed in accordance with, English law.

CERTAIN PROVISIONS OF THE ACT AND REQUIREMENTS OF THE SUPERVISORY AUTHORITY

In this section, "**Supervisory Authority**" means the FSA and any successor organisation responsible for the supervision of building societies or authorised persons under the FSMA in the United Kingdom.

Amalgamation

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires a shareholding members' resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of the borrowing members of each amalgamating society and confirmation of amalgamation by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which, in the case of the Society, would include the PIBS) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned. In the event of such an amalgamation by the Society with another building society, the PIBS would, pursuant to their terms, become deferred shares in the successor without any alteration of their terms.

Transfer of Engagements

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires approval by a shareholding members' resolution and a borrowing members' resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Supervisory Authority consents to the transfer proceeding by a resolution of its board of directors only. The transfer must be confirmed by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities (including the PIBS) of the Society, the PIBS would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms.

Transfer of Business

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a requisite shareholding members' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members' resolution passed by borrowing members and the society must obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the PIBS) of the transferor society, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with the transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, the PIBS would be converted into deposits with the successor. The terms of the PIBS provide that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the Society to acquire shares in priority to other subscribers, the right is restricted to investing members of the Society who have held their shares throughout the period of two years expiring on a qualifying day specified by the society in the transfer agreement. Also, all investing members' shares, including PIBS, are converted into deposits with the successor. If the transfer is to a company specially formed by the Society, shareholders of the society who were eligible to vote on the transfer are members on the qualifying day specified in the transfer agreement and who retain a deposit with a successor, must be given rights to a priority liquidation distribution (as defined by the Act) should the successor be wound up. These rights are protected by the successor granting a charge over its property or undertaking. On any such transfer, investing members of the Society who were members on the qualifying date but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of the reserves of the Society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to certain investing members of the Society who have held their shares for at least two years expiring on a qualifying day specified by the Society in the transfer agreement.

General

The Society may, as a result of an amalgamation, transfer of engagements or transfer of business as described above, be replaced as the principal debtor, under all or some of the PIBS, by an entity substantially different in nature from the Society at present or with a substantially different capital position. In all cases the confirmation of the Supervisory Authority is required before any such change can take place.

WEST BROMWICH BUILDING SOCIETY

Form, Status and Ownership

West Bromwich Building Society (the "**Society**") was formed on 23 April 1849. The Society (with registered number 651B) is incorporated in England under the Act for an unlimited duration and is treated as having permission under Part IV of the FSMA to carry on all of the regulated activities which it was authorised to carry on under the Act prior to 1 December 2001.

The principal office of the Society is 374 High Street, West Bromwich, West Midlands B70 8LR. Its telephone number is 0121 525 7070.

As at 31 March 2005 based on its asset value the Society was the ninth largest building society in the United Kingdom with assets of £5.6 billion. During the financial year ended 31 March 2005 the Society had, on average, 799 employees. The Society currently operates 48 branches and two mortgage bureaux. The Society is committed to being run for the benefit of the members, both present and future, rather than the interests of a small group of outside shareholders. It strongly supports the concept of mutuality by seeking to give additional value to borrowers and investors and the communities it serves.

The Society has approximately 320,000 members. So far as is known to the Society no persons, directly or indirectly, jointly or severally, exercise control over the Society.

There are no arrangements known to the Society, the operation of which may at a subsequent date result in a change of control of the Society, as the only situation where there would be a "change of control" is if the requisite majority of members consented to a conversion from a mutual society to a plc. There is no intention for this to happen.

Business

The figures stated in this section relating to the business of the Society relate to the Group except where otherwise stated.

General

The Society operates in accordance with the Act, regulations made thereunder and the Rules and the Memorandum. The principal purpose of the Society as set out in clause 3 of its Memorandum is to make loans that are secured on residential property and are funded substantially by its members. The Group's principal operating objective is to be a high-quality provider of building society services of retail savings and mortgages to an increasing number of customers.

The Group obtains funds from the retail market through a range of variable rate instant access and notice accounts, supplemented by fixed rate/fixed term accounts, which are predominantly hedged. The Group also raises funds in the wholesale money markets and has previously arranged both medium-term funding and bilateral and syndicated bank facilities. The Society has, in the last financial year, completed its inaugural securitisation issue.

Funds are advanced primarily to borrowers on the security of first mortgages on freehold and leasehold residential property. The Society also lends to borrowers on the security of commercial property and typically holds 15-20 per cent. of its assets in high-quality money market instruments to provide operating liquidity.

The Society interacts with its customers through a range of sales channels including branch, telephone, post, internet and broker introductions.

The Society has three main subsidiaries: West Bromwich Mortgage Company Limited, West Bromwich Homes Limited and West Bromwich Commercial Limited.

West Bromwich Mortgage Company Limited provides a vehicle for non-member residential lending and had assets of £734 million as at 31 March 2005. Most of the loans within this vehicle have been acquired by the Group through a variety of mortgage book acquisitions.

West Bromwich Homes Limited currently owns approximately 700 residential properties that are made available for rental to provide income for the Group. The Society has also achieved significant capital growth through this vehicle.

West Bromwich Commercial Limited, which provides mortgages to fund the purchase of prime commercial investment properties, increased lending by 73 per cent. this year with a continued focus on quality assets against a good spread of tenant risk.

Mortgage Lending Activities

The Society competes in the mortgage market by providing a range of innovative and competitive fixed and variable rate products. The Society has both very strong underwriting skills and good monitoring systems in place in accordance with the Society's prudential obligations to ensure underwriting is carried out in accordance with the Society's policy.

On 22 March 2005 the Society also acquired one of the UK's leading franchised mortgage intermediary companies, Mortgage Force Limited ("**Mortgage Force**"), in a new venture unique to the building society sector. The Society paid £6.8 million (including fees) for Mortgage Force, with £800,000 of this being deferred consideration. This is a major step forward, combining the successful franchise model of Mortgage Force and the Society's enviable track record of corporate diversification within the Group.

Mortgage Force will represent a valuable addition to Group activities, remaining independent while extending the Society's operation into new national markets. Mortgage Force are a Franchised Mortgage Brokerage operation (i.e. 100 self employed mortgage brokers using Mortgage Force as a central hub for support, lender panel management, leads, training etc.). The ability to meet customers needs and reach new markets through UK-wide specialist one-to-one advice is reflected in the rapid growth of this pioneering operation.

Arrears and Loan Loss Provision

At 31 March 2005 there were 15 residential and commercial mortgage accounts where payments were 12 months or more in arrears. The total amount outstanding on these accounts was £1.03 million, representing 0.03 per cent. of mortgage balances, and the amount of arrears was £0.127 million.

Retail Funding

During the financial year ended 31 March 2005, the Society had a net increase in retail investor balances of £312 million.

Wholesale Funding

The Society has a policy of remaining active in the wholesale markets. At 31 March 2005, the following was the analysis of wholesale funds:

	£m
Amounts owed to credit institutions	210.8
Amounts owed to other wholesale customers	584.8
Debt securities	864.5
Total Wholesale Funding	1660.1

At 31 March 2005 the Group's wholesale deposit funding was approximately 31.7 per cent. of shares, deposits and loans.

Warehousing

The warehouse loan facility is a financing structure that will enable the Society to originate commercial loans off balance sheet to contribute to non-member income whilst minimising any associated risks. This will allow us to maximise our origination capability, particularly for larger loans (up to £60 million) that we are unable to hold on our own balance sheet.

The Society's exposure comes through the credit support it will provide to the facility via a letter of credit, initially of £30 million, increasing to a maximum £45 million exposure depending on the performance of the loans originated.

Liquidity

During the year ended 31 March 2005 the Group increased total liquid funds by £73.8 million to £1.0007 billion, representing 19.14 per cent. of total shares and borrowings.

Capital Resources

The Society has a capital base comprising general reserves, subordinated debt and revaluation reserve.

Operational Efficiency

The more cost-efficient the Society is, the more benefits it can give to its members. Increasing efficiency is therefore the Society's aim and this is at the heart of its plans going forward. The Society, as at 31 March 2005, had an administrative expense ratio of 0.80 per cent.

Non-Interest Income

The Society has access to substantial non-interest income through a diverse range of Group businesses. Non-interest income is predominantly earned from rental income, via West Bromwich Homes Limited and fees and commissions received, via sales of third party retail products. Net total income for 2004/05 was £76.2 million. Of this, £21.9 million was net non-interest income.

Current Prospects

The Group has demonstrated that it is competitive in both the mortgage and retail investment markets reflecting its strong regional brand franchise. The Group contains businesses that are complementary to the core Society business. The Group has a proven track-record of mortgage book purchases and commercial lending and residential property investment.

The Society's Executive Team develops both the core and non-core businesses and is complemented by an experienced non-executive board from differing professional, commercial and industrial backgrounds.

Board of directors

The Society has 12 directors, comprising eight non-executive (part-time) directors and four executive (full-time) directors who are the Society's most senior executives. As recommended by the Financial Services Authority, the Society's directors are fit and proper persons and bring a wide range of experience, business skills, professional expertise and community involvement to the policy making of the Society.

A brief profile of the Executive Directors:

Name	*Responsibilities within the Society*	*Business Occupation*
Andrew Messenger FCIB	Andrew joined the Society in 1991 and became Chief Executive in 1996. Prior to joining the Society, Andrew worked in lending and sales with two major banks.	Chief Executive
Gary T Cowdrill FCA	Gary joined the Society in 1991 and was appointed to the Board in 2002. Subsequent to qualifying as a Chartered Accountant in 1980 he has worked exclusively in the residential lending sector, having worked for two other building societies and a centralised lender.	Finance Director
Stephen Karle B Soc Sc (Hons)	Stephen joined the Society in 1995 and was appointed to the Board in 2000. Stephen previously worked, for 12 years, in private practice as a solicitor.	Solicitor – Operations Director and Group Secretary

Name	*Responsibilities within the Society*	*Business Occupation*
Roger D Smith BSc MBA	Roger joined the Society, and was appointed to the Board, in 2001. In 2004 he was appointed Group Development Director to manage the Society's non-core businesses. Prior to joining the Society, Roger had been a director of a general insurer.	Group Development Director

Details of Non-Executive Directors:

Name

Roger J Dickens CBE, DL, FCA, D. Univ
Chairman
Appointed: 1998

Bharat Shah FCCA
Appointed: 2004

Susan Battle OBE
Appointed: 2002

Lesley James CBE, BA (Hons), MA, CCIPD, FRSA
Appointed: 2001

Graham J Wentzell BSc, Ceng, MICE
Deputy Chairman
Appointed: 1998

Edwin Hucks, BSc, MSc
Senior Independent Director
Appointed: 2000

Andrew Mackenzie BSc, FCIOB
Appointed: 1999

Brian Woods-Scawen BA (Econ), MA, LLD, FCA, FRSA, DL
Appointed: 2004

There are no conflicts of interest between any duties to the Society of the persons above and other duties or private interest of those persons.

The business address of each of the directors is c/o West Bromwich Building Society, 374 High Street, West Bromwich, West Midlands B70 8LR.

GROUP FINANCIAL STATEMENTS

The following pages 31 to 64 contain information which has been reproduced from Group and the Society's 2004 and 2005 audited financial statements (amended to reflect references to pages in this document).

Group Income and Expenditure Account

For the year ended 31 March 2005

	Notes	*2005 (£m)*	*2004 (£m) Restated*
Interest receivable and similar income	2	272.9	206.4
Interest payable and similar charges	3	(218.6)	(150.4)
Net interest receivable		54.3	56.0
Pension finance income/(charge)	8	0.1	(0.3)
Fees and commissions receivable		12.7	12.6
Fees and commissions payable		(8.3)	(7.5)
Other operating income	4	17.4	12.8
Total income		76.2	73.6
Administrative expenses	5	(37.2)	(37.8)
Depreciation and amortisation	16	(5.7)	(8.1)
Operating profit before provisions		33.3	27.7
Provisions for bad and doubtful debts	13	2.9	2.8
Provisions for contingent liabilities and commitments		(2.5)	(0.5)
Operating profit and profit on ordinary activities before tax		33.7	30.0
Tax on profit on ordinary activities	9	(10.5)	(8.9)
Profit for the financial year	28(b)	23.2	21.1

Profits on an historical cost basis would not be significantly different to those stated above.

All the results in the current year shown above relate to continuing activities.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2005

Group	*Notes*	*2005 (£m)*	*2004 (£m) Restated*
Profit for the financial year		23.2	21.1
Movement in actuarial loss recognised in pension scheme	8	(1.2)	3.5
Movement in taxation relating to pension scheme		0.4	(1.1)
Surplus on revaluation of investment properties	16	7.7	6.6
Total recognised gains and losses relating to the year		30.1	30.1
Prior year adjustment	1	(5.8)	
Total gains and losses recognised since the last Annual Accounts		24.3	

Group Balance Sheet at 31 March 2005

	Notes	2005 (£m)	2005 (£m)	2004 (£m) Restated	2004 (£m) Restated
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		7.2		8.7	
Loans and advances to credit institutions	10	300.3		341.4	
Debt securities	11	693.2		576.8	
			1,000.7		926.9
Loans and advances to customers					
Loans fully secured on residential property		3,801.9		3,328.2	
Loans fully secured on land		661.0		636.6	
Other loans		0.3		0.3	
Loans subject to non-recourse finance		231.4		—	
Non-recourse finance		(231.4)		—	
	12		4,463.2		3,965.1
Tangible fixed assets	16		105.7		96.1
Intangible fixed assets	17		6.7		—
Other assets	18		40.6		20.2
Prepayments and accrued income	19		23.8		32.7
Total Assets			5,640.7		5,041.0
Liabilities					
Shares	20		3,569.2		3,257.3
Amounts owed to credit institutions	21		210.8		330.1
Amounts owed to other customers	22		584.8		994.7
Debt securities in issue	23		864.5		96.0
Other liabilities	24		11.5		10.6
Accruals and deferred income	25		16.2		26.1
Provisions for liabilities and charges	26		2.5		0.5
Net pension liability	8		2.8		2.4
Subordinated liabilities	27		107.5		82.5
			5,369.8		4,800.2
Reserves					
Revaluation reserve	28(a)		24.6		18.7
General reserves	28(b)		246.3		222.1
Total Liabilities			5,640.7		5,041.0
Memorandum items					
Commitments	29(c)		311.0		248.2

The accounting policies and notes on page 37 to 64 form part of these accounts.

Approved by the Board of Directors on 25 May 2005 and signed on its behalf by:

R J Dickens	A Messenger	G T Cowdrill
Chairman	**Chief Executive**	**Finance Director**

Society Income & Expenditure Account for the year ended 31 March 2005

	Notes	*2005 (£m)*	*2004 (£m) Restated*
Interest receivable and similar income	2	269.9	204.8
Interest payable and similar charges	3	(218.6)	(150.4)
Net interest receivable		51.3	54.4
Pension finance income/(charge)	8	0.1	(0.3)
Fees and commissions receivable		12.4	12.5
Fees and commissions payable		(7.4)	(6.2)
Other operating income	4	11.3	8.0
Total income		67.7	68.4
Administrative expenses	5	(36.0)	(37.9)
Depreciation and amortisation	16	(4.6)	(6.6)
Operating profit before provisions		27.1	23.9
Provisions for bad and doubtful debts	13	1.9	0.1
Provisions for contingent liabilities and commitments		(2.5)	(0.5)
Operating profit and profit on ordinary activities before tax		26.5	23.5
Tax on profit on ordinary activities	9	(8.1)	(7.2)
Profit for the financial year	28(b)	18.4	16.3

Profits on an historical cost basis would not be significantly different to those stated above.

All the results in the current year shown above relate to continuing activities.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2005

	Notes	*2005 (£m)*	*2004 (£m) Restated*
Profit for the financial year		18.4	16.3
Movement in actuarial loss recognised in pension scheme	8	(1.2)	3.5
Movement in taxation relating to pension scheme		0.4	(1.1)
Surplus on revaluation of investments in subsidiary undertakings	14	12.5	10.6
Total recognised gains and losses relating to the year		30.1	29.3
Prior year adjustment	1	(5.8)	
Total gains and losses recognised since the last Annual Accounts		24.3	

Society Balance Sheet at 31 March 2005

	Notes	2005 (£m)	2005 (£m)	2004 (£m) Restated	2004 (£m) Restated
Assets					
Liquid Assets					
Cash in hand and balances with the Bank of England			7.2		8.5
Loans and advances to credit institutions	*10*		293.2		333.1
Debt Securities	*11*		693.2		576.8
			993.6		918.4
Loans and advances to customers					
Loans fully secured on residential property		3,090.2		2,687.1	
Loans fully secured on land		583.6		631.6	
	12		3,673.8		3,318.7
Investments					
Investments in subsidiary undertakings	*14*		895.9		738.2
Tangible fixed assets	*16*		25.2		26.1
Intangible fixed assets	*17*		6.7		—
Other assets	*18*		21.9		3.9
Prepayments and accrued income	*19*		20.3		31.8
Total Assets			5,637.4		5,037.1
Liabilities					
Shares	*20*		3,569.2		3,257.3
Amounts owed to credit institutions	*21*		210.8		330.1
Amounts owed to other customers	*22*		584.8		994.7
Debt securities in issue	*23*		864.5		96.0
Other liabilities	*24*		9.1		7.5
Accruals and deferred income	*25*		15.3		25.3
Provisions for liabilities and charges	*26*		2.5		0.5
Net pension liability	*8*		2.8		2.4
Subordinated liabilities	*27*		107.5		82.5
			5,366.5		4,796.3
Reserves					
Revaluation Reserve	*28(a)*		38.7		26.4
General Reserves	*28(b)*		232.2		214.4
Total Liabilities			5,637.4		5,037.1
Memorandum items					
Commitments	*29(c)*		293.3		240.2

The accounting policies and notes on pages 37 to 64 form part of these accounts.

Approved by the Board of Directors on 25 May 2005 and signed on its behalf by:

R J Dickens	A Messenger	G T Cowdrill
Chairman	*Chief Executive*	*Finance Director*

Group Cash Flow Statement for the year ended 31 March 2005

	Note	2005 (£m)	2004 (£m) Restated
Net cash inflow from operating activities (see below)		478.2	379.1
Returns on investment and servicing of finance		(7.7)	(3.9)
Taxation		(9.3)	(9.6)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	*16*	(14.5)	(16.6)
Disposal of tangible fixed assets		7.1	0.7
Net investment of debt securities issued by other borrowers	*11*	(115.3)	(92.5)
		338.5	257.2
Acquisitions and disposals			
Acquisition of subsidiary	*15*	(6.8)	—
Purchase of mortgage portfolios	*15*	(352.3)	(316.9)
Net cash outflow before financing		(20.6)	(59.7)
Financing			
Issue of subordinated liabilities	*27*	25.0	32.5
Increase/(Decrease) in cash in the year		4.4	(27.2)

Reconciliation of operating profit to net cash inflow from operating activities

	2005 (£m)	2004 (£m) Restated
Operating profit (profit on ordinary activities before tax)	33.7	30.0
Net gain on disposal of fixed assets and investment properties	(0.2)	—
Decrease in prepayments and accrued income	8.0	5.6
Increase in accruals and deferred income	21.1	0.8
Depreciation and amortisation	5.7	8.1
Amortisation of mortgage portfolio acquisition premium	6.3	5.8
Pension charge less contributions	(0.6)	0.6
Interest on subordinated liabilities	7.8	4.1
Net cash inflow from trading activities	81.8	55.0
Increase in loans and advances to customers	(153.6)	(382.9)
Decrease in deferred mortgage guarantee income	(0.6)	(1.4)
Decrease in provision for bad and doubtful debts	(2.6)	(2.9)
Increase in shares	284.8	250.0
Increase in deposits and other borrowings	235.3	435.3
Decrease in loans and advances to credit institutions	47.5	25.1
Increase in other assets	(17.0)	(0.9)
Increase/(decrease) in other liabilities	0.6	1.3
Increase in provisions for liabilities and charges	2.0	0.5
Net cash inflow from operating activities	478.2	379.1

Analysis of decrease in cash

	Cash balances (£m)	*Net increase/ (decrease) (£m)*
Cash balances:		
Cash in hand	2.4	
Loans and advances to credit institutions repayable on demand	27.4	
Total cash 2005	29.8	
Net increase 2004 to 2005		4.4
Total cash 2004	25.4	
Net decrease 2003 to 2004		(27.2)
Total cash 2003	52.6	

The Group is required to maintain balances with the Bank of England which, at 31 March 2005, amounted to £4.8 million (2004: £4.1 million). The movement in this balance is included within other assets.

NOTES TO THE ACCOUNTS

1 Accounting Policies

Accounting convention

The Accounts have been prepared under the historical cost convention, with the exception of freehold buildings, investment properties, and investments in subsidiary undertakings. Freehold buildings and investment properties are valued at market valuation and investments in subsidiary undertakings are valued at their net asset value. This policy is in accordance with applicable accounting standards.

Basis of preparation and consolidation

The Accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 (the "Regulations") and applicable Accounting Standards, except where explained below. The Group has adopted Financial Reporting Standard No. 17 (*Retirement Benefits*")("**FRS17**") during the year and also revised its policy for Mortgage Origination Costs. These changes have resulted in a prior year adjustment explained at the end of this Accounting Policies note.

The Group Accounts consolidate the state of affairs, cash flows and results of the Society and its subsidiary undertakings, and other companies which are considered by the Directors to be quasi-subsidiaries as defined in Financial Reporting Standard No. 5 (*Reporting the substance of transactions*), all of which have accounting periods ended 31 March.

Compliance with Statement of Standard Accounting Practice 19 (*Accounting for Investment Properties*) ("**SSAP19**") requires departure from the requirements of the Accounts Regulations relating to depreciation and an explanation of the departure is given in the investment properties policy note below.

Advances Subject to Non-recourse Finance

Loans fully secured on land and buildings subject to non-recourse finance meeting the conditions specified in Financial Reporting Standard No. 5 are included in the balance sheet using the linked presentation method.

Taxation

The charge for taxation is based upon the profit for the year and takes into account taxation which is deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences (with the exception of revaluation surpluses) that have originated but not reversed at the balance sheet date. Deferred tax is calculated at rates expected to be applicable when the liability or asset crystallises on a non-discounted basis.

Interest receivable

Interest in respect of all loans is credited to the Income and Expenditure Account as it becomes receivable, except where collectability of interest is in significant doubt, including where there are long term arrears or where the property has been taken into possession. Such interest is credited to an interest suspense account.

Employee Benefits

The Group provides both a defined benefit and a defined contribution scheme on behalf of directors and staff. The defined benefit scheme is funded by contributions partly from the employees and partly from the Society at rates assessed by independent actuaries. These contributions are invested separately from the Group's assets, The Scheme assets are measured at market value at each Balance Sheet date and the liabilities are measured using the projected unit valuation method, discounted using a corporate bond rate. The resulting pension scheme surplus or deficit is recognised immediately on the Balance Sheet, net of deferred tax, and any resulting actuarial gains and losses are recognised immediately in the Statement of Total Recognised Gains and Losses. For the defined contribution scheme, contributions are charged to the Income and Expenditure Account, as they become payable, in accordance with the rules of the Scheme.

Fixed assets and depreciation

Depreciation is provided to write off the cost, less estimated residual value, of fixed assets as follows:

(i) Land and Buildings: Freehold properties	Cost less residual land value over a period of 50 years
Leasehold properties with an unexpired term of less than 10 years	Annual instalments over the period of the lease
(ii) Equipment, Fixtures, Fittings and Vehicles:	
Office Equipment including Fixtures and Fittings (other than small items, which are written off in the year of purchase)	Over a period of three to seven years
Computer equipment and Software purchased	Over a period of three to seven years
Motor Vehicles	25 per cent. per annum reducing balance
Refurbishments	Over a period of five to 10 years

Provision is made for diminution in value of any fixed asset where that reduction is expected to be permanent.

Freehold and long leasehold properties are revalued at least every three years by a qualified internal valuer and every five years by independent external valuers, on an open market value basis. The surplus or deficit on revaluation is taken to the revaluation reserve.

Investments in subsidiary undertaking are revalued by the Directors on an annual basis at their net asset value.

Derivatives

In accordance with the Act 1986, derivatives are used purely to hedge risk exposure and are not used for speculative purposes. Derivatives are taken out to reduce exposures to fluctuations in interest rates or other factors of a prescribed description which affect the business.

Derivatives are initially recorded at cost and are accounted for on an accruals basis in the same way as the underlying items which they are hedging. Interest receipts and payments on hedging instruments are included as net income or expense on financial instruments within interest receivable and similar income or interest payable and similar charges. In order to achieve a consistent timing of income recognition on the items being hedged, deferred gains and losses are included in the balance sheet within accruals and deferred income or prepayments and accrued income.

Where a hedge is terminated early, the resulting gain or loss is amortised over the remaining life of the item that had been hedged. If the underlying item is redeemed, the unamortised amounts are recognised immediately in the Income and Expenditure Account.

Leasing

Rentals under operating leases are charged to administrative expenses on a straight line basis over the period of the lease.

Losses on loans and advances

Provisions are made to reduce the value of loans and advances to the amount which the Directors consider is likely to be received. The provisions include both a specific provision for anticipated losses and a general provision. The specific provision is based on detailed appraisals of the loans and advances throughout the year and at the year-end.

A detailed assessment is carried out in respect of all loans and advances where any risk to the security has been identified, which are in possession, or are in arrears by more than 2.5 per cent. of the capital balance. The provision represents the amount required to reduce the book value of the assets to their expected realisable value taking into account estimated sales value, costs of realisation, other recoveries and the probability of possession. The general provision is made against those loans and advances that have not been specifically identified as impaired, but where the Group's experience indicates that losses may ultimately be realised.

Loans and advances are shown on the Balance Sheet net of provisions, and net of the balance in the interest suspense account. The amount charged to the Income and Expenditure Account represents capital losses written off in the year, together with the net change in the provisions for potential losses.

Liquid assets

Debt securities intended for use on a continuing basis in the Group's activities are classified as financial fixed assets and are stated at cost adjusted to exclude accrued interest at the date of purchase. A similar adjustment is made on realisation of such assets.

Premiums and discounts arising from the purchase of debt securities held as financial fixed assets are amortised on a straight line basis over the period to maturity. Any amounts so amortised are charged or credited to the Income and Expenditure Account for the relevant financial years.

Where there is a permanent diminution in value of a financial fixed asset a provision is made so as to write down the cost of the security to its recoverable amount.

Other liquid assets are stated at the lower of cost and net realisable value.

Goodwill

In accordance with Financial Reporting Standard No. 10 (*Goodwill and intangible assets*), amounts paid for businesses in excess of the fair value of the net tangible assets acquired are amortised on a straight line basis over their estimated useful economic lives up to a maximum of 10 years, subject to any adjustments arising from impairment reviews.

Premiums on Acquisitions

Premiums paid for mortgage book businesses in excess of the fair value of the net tangible assets acquired are included in other assets and amortised on a level yield basis over the estimated economic life of the assets. Premium amortisation is included within interest receivable.

Mortgage acquisition costs

Mortgage acquisition costs include all cashbacks, interest discounts and other incentives to borrowers together with external third party costs, such as procuration and property valuation fees, which are incurred in the origination of new mortgages. All such costs are amortised over either the period over which they may be recovered or the estimated minimum life of the mortgage. Any unamortised costs are included in prepayments and accrued income.

This represents a change in accounting policy (previously external third party costs were not amortised but charged in full in the year incurred) and has resulted in a prior year adjustment, which is explained at the end of this Accounting Policies note.

Mortgage guarantee insurance

It is the Society's policy to require mortgage guarantee insurance where an advance results in a loan to value ratio in excess of a certain level and a charge for this insurance is made to the borrower. A proportion of the charge based on the Society's assessment of its risk under the policy is treated as deferred income and deducted from loans and advances to customers in the balance sheet.

Claims from the fund of deferred income are credited as they arise against the charge for provisions for bad and doubtful debts. The deferred income is recognised as income, through other operating income, when the risks of the lending to which the income relates can be accurately assessed, to the extent the income exceeds the quantified risk assessment.

Investment properties

Investment properties are included in the balance sheet at market value. The aggregate surplus or deficit arising on revaluation is transferred to the revaluation reserve except where the deficit is deemed permanent where it is taken to the profit and loss account. Deposits are included in current assets.

In accordance with SSAP 19, no amortisation or depreciation is provided in respect of investment properties. This treatment is contrary to the Accounting Regulations, which states that fixed assets should be depreciated but is, in the opinion of the Directors, necessary to show a true and fair view of the financial position of the Group.

Revaluations are carried out at least every three years by a qualified internal valuer and every five years by an external valuer on an open market basis.

In the intervening years a review of the valuations is to be performed, sufficient to allow the Directors to assess the open market value of the properties.

Changes in accounting policy

Employee benefits

The Group has elected to adopt FRS17 early. This Standard requires that the assets of defined benefit schemes are included within the Balance Sheet together with the related liabilities and, in order to fully comply with the Standard, a prior year adjustment has been necessary.

Recognition of mortgage acquisition costs

The Board approved a change in accounting policy relating to the recognition of mortgage acquisition costs. The previous accounting policy was to spread acquisition costs offered to borrowers over the period during which they can be recovered on early redemption. In the current year incremental third party costs, such as procuration fees and valuation costs, have also been spread. This change provides a fairer allocation of the income and costs in the acquisition of mortgage business.

As a result of the above a prior year adjustment has been necessary. The impact of these changes to accounting policy are disclosed in the table below:

Year ended 31 March 2004	*Results under previous policy*	*FRS 17*	*Deferred mortgage costs (£m)*	*Net re-statement*	*As restated*
Income and expenditure					
Net interest receivable	54.7	—	1.3	1.3	56.0
Pension finance income/(charge)	—	(0.3)	—	(0.3)	(0.3)
Other pension costs	(0.8)	(1.6)	—	(1.6)	(2.4)
Tax on profit on ordinary activities	(9.1)	0.6	(0.4)	0.2	(8.9)
Balance sheet					
Pension scheme prepayment	6.2	(6.2)	—	(6.2)	—
Deferred tax asset	1.6	1.9	—	1.9	3.5
Corporation tax liability	(3.2)	—	(0.4)	(0.4)	(3.6)
Net pension liability	—	(2.4)	—	(2.4)	(2.4)
Deferred mortgage acquisition costs	6.3	—	1.3	1.3	7.6
General reserves	227.9	(6.7)	0.9	(5.8)	222.1
Relating to year ended 31 March 2004		1.0	0.9	1.9	
Relating to previous periods		(7.7)	—	(7.7)	

Year ended 31 March 2005	Results under previous policy	FRS 17	Deferred mortgage costs (£m)	net re-statement	As restated
Income and expenditure					
Net interest receivable	51.9	—	2.4	2.4	54.3
Pension finance income/(charge)	—	0.1	—	0.1	0.1
Other pension costs	(2.0)	0.4	—	0.4	(1.6)
Tax on profit on ordinary activities	(9.6)	(0.2)	(0.7)	(0.9)	(10.5)
Balance sheet					
Pension scheme prepayment	6.2	(6.2)	—	(6.2)	—
Deferred tax asset	0.7	1.9	—	1.9	2.6
Corporation tax liability	(3.5)	—	(0.4)	(0.4)	(3.9)
Net pension liability	—	(2.8)	—	(2.8)	(2.8)
Deferred mortgage acquisition costs	7.9	—	3.8	3.8	11.7
General reserves	250.1	(7.2)	3.4	(3.8)	246.3
Relating to year ended 31 March 2005		(0.5)	2.5	2.0	
Relating to previous periods		(6.7)	0.9	(5.8)	

2 Interest receivable and similar income

	Group 2005	Group 2004 Restated	Society 2005	Society 2004 Restated
		(£m)		
On loans fully secured on residential property	196.4	147.8	156.2	122.6
On other loans				
Connected undertakings	—	—	38.2	24.0
Other	34.8	37.2	33.8	36.8
On debt securities				
Interest and other income	24.8	21.2	24.8	21.2
On other liquid assets				
Interest and other income	13.0	8.7	13.0	8.7
Net income/(expense) on financial instruments	3.9	(8.5)	3.9	(8.5)
	272.9	206.4	269.9	204.8
Interest receivable includes:				
Income from fixed income securities	18.6	16.4	18.6	16.4

Interest receivable has been increased by £2.3 million (2004: increased by £2.5 million) representing the net movement of interest suspended on non-performing loans in accordance with the Society's accounting policy.

	Group & Society 2005	Group & Society 2004
	(£m)	
At 1 April 2004	9.3	11.8
Interest written off during the year	(0.2)	—
Suspended interest released during the year	(2.3)	(2.5)
At 31 March 2005	6.8	9.3

3 Interest payable and similar charges

	Group & Society 2005	2004
	(£m)	
On shares held by individuals	149.9	118.8
On deposits and other borrowings		
Subordinated liabilities	7.8	4.1
Other	57.6	38.7
Net expense/(income) from financial instruments	3.3	(11.2)
	218.6	150.4

4 Other operating income

	Group 2005	Group 2004	Society 2005	Society 2004
		(£m)		
Other operating income includes:				
Rent receivable	5.4	3.6	0.1	0.1
Other	12.0	9.2	11.2	7.9
	17.4	12.8	11.3	8.0

5 Administrative expenses

	Group 2005	Group 2004 Restated	Society 2005	Society 2004 Restated
		(£m)		
Staff costs				
Wages and salaries	21.0	20.3	20.0	19.9
Social security costs	1.7	1.7	1.6	1.6
Other pension costs	1.6	2.4	1.6	2.4
	24.3	24.4	23.2	23.9
Other administrative expenses	12.9	13.4	12.8	14.0
	37.2	37.8	36.0	37.9
Other administrative expenses include:				
Remuneration of auditors and their associates				
– audit fees	0.1	0.1	0.1	0.1
– non audit fees	0.1	0.1	0.1	0.1

Other pension costs for last year have been restated to reflect the implementation of FRS17 (*Retirement Benefits*). See notes 1 and 8 for more detail.

6 Directors' emoluments

The policy on Directors' remuneration is set out in the Directors' Remuneration Report in the Accounts.

The total emoluments of the Directors who served during the year were £1,421,000 (2004: £1,383,000).

	Total Fees 2005 (£000)	*2004*
Non-Executive Directors		
Sue Battle	28	28
Norman Cooper (retired 22 July 2004)	14	46
Roger Dickens	60	60
Edwin Hucks	33	28
Lesley James	35	35
Andrew MacKenzie	35	35
Bharat Shah (appointed 22 July 2004)	14	—
Graham Wentzell	41	35
Brian Woods-Scawen (appointed 28 January 2004)	34	5
Ambar Paul (retired 1 September 2003)	—	9
Total	294	281

	Salary	*Bonus*	*Benefits*	*Sub Total (£000)*	*Increase in accrued pension*	*Total 2005*	*Total 2004*
Executive Directors							
Andrew Messenger	231	129	16	376	8	384	373
Stephen Karle	161	90	22	273	5	278	269
Roger Smith	144	80	19	243	5	248	241
Gary Cowdrill	129	72	12	213	4	217	219
Total 2005	665	371	69	1,105	22	1,127	1,102
Total 2004	639	365	69	1,073	29	1,102	

The following information shows the value of the Directors' pension benefits. The increase in accrued pension represents the change in the annual pension to which each Director is entitled as a result of changes in pensionable earnings (excluding inflation) and additional pensionable service during the year. The movement in transfer value represents the present capital value of the changes in Director's accrued pension entitlements for the year net of contributions from Directors.

	Increase in accrued pension	*Accrued pension entitlement*	*Con-tributions from Directors (£000)*	*Transfer value of accrued benefits 31 March 2005*	*Transfer value of accrued benefits 31 March 2004*	*Movement in transfer value less Directors' con-tributions*
Executive Directors						
A Messenger	8	79	5	1,062	869	188
S A Karle	5	40	3	377	300	74
R D Smith	5	17	7	153	99	47
G T Cowdrill	4	33	3	366	288	75

7 Employees

	Group 2005	Group 2004	Society 2005	Society 2004
The average number of employees employed throughout the year was:				
Full time	667	688	637	663
Part time	132	125	129	125
	799	813	766	788
Building Society				
Central Administration	442	427	442	427
Branches	324	361	324	361
Subsidiaries	33	25	—	—
	799	813	766	788

8 Pension Schemes

Pension Schemes

The Group operates both a defined benefit pension scheme and a defined contribution stakeholder scheme.

Defined benefit scheme

The Group has elected to adopt Financial Reporting Standard 17 – Retirement Benefits (FRS17) early. This standard requires that the assets of defined benefit schemes are included within the Balance Sheet together with the related liabilities and, in order to fully comply with the Standard, a prior year adjustment has been necessary (see note 1).

For the year to 31 March 2004, the Scheme was non-contributory for staff who joined the Society on or before 1 April 2004. Staff who joined after 1 April 1997 but before 1 March 2002 contributed 5 per cent. of pensionable salary. These staff contribution arrangements were revised during the year. Since 1 November 2004, all staff in the Scheme with benefits accruing at 1/60ths have contributed at 5 per cent. of their pensionable salary and staff with benefits accruing at 1/80ths (a new accrual rate from 1 November 2004) have contributed at 3.75 per cent..

A full actuarial valuation of the Scheme was carried out at 1 April 2004 and has been updated to 31 March 2005 by a qualified independent actuary. The service cost has been calculated using the Projected Unit method. As a result of the Scheme being closed to new entrants, the service cost will increase as the members of the Scheme approach retirement. The major financial assumptions used by the actuary in the updated calculation were:

	2005	2004 (%)	2003
Rate of increase in salaries	3.75	3.75	3.50
Rate of increase of pensions in payment	2.75	2.75	2.50
Rate of increase applied to deferred pensions	2.75	2.75	2.50
Discount rate	5.40	5.60	5.50
Inflation assumption	2.75	2.75	2.50

The assets in the Scheme and the expected rate of return were:

	2005 Expected rate of return (%)	2005 (£m)	2004 Expected rate of return (%)	2004 (£m)	2003 Expected rate of return (%)	2003 (£m)
Equities	7.25	29.3	7.25	24.9	6.60	15.9
Bonds	4.75	13.0	4.75	12.6	4.60	14.8
Total market value of assets		42.3		37.5		30.7
Actuarial value of liability		(46.3)		(40.9)		(37.0)
Deficit in the Scheme		(4.0)		(3.4)		(6.3)
Related deferred tax asset		1.2		1.0		1.9
Net pension liability		(2.8)		(2.4)		(4.4)

Analysis of the amount charged to operating profit

	2005 (£m)	2004
Service cost	1.5	2.4
Total operating charge	1.5	2.4

Analysis of expected returns on Scheme assets and liabilities

	2005 (£m)	2004
Expected return on Pension Scheme assets	2.5	1.7
Interest on pension liabilities	(2.4)	(2.0)
Net return on assets/(interest cost)	0.1	(0.3)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2005 (£m)	2004
Actual return less expected return on assets	1.2	4.1
Experience (losses) and gains on liabilities	(0.7)	0.5
Changes in assumptions	(1.7)	(1.1)
Net (loss)/gain recognised	(1.2)	3.5

Movement in deficit during the year

	2005 (£m)	2004
Deficit in Scheme at beginning of year	(3.4)	(6.3)
Movement in year:		
Current service cost	(1.5)	(2.4)
Contributions	2.0	2.1
Net return on assets/(interest cost)	0.1	(0.3)
Actuarial (loss)/gain	(1.2)	3.5
Scheme deficit at end of year	(4.0)	(3.4)

History of experience gains and losses

	2005	*2004*	*2003*
Difference between expected and actual return on scheme assets:			
amount (£ million)	1.2	4.1	(8.1)
percentage of scheme assets	3%	11%	-26%
Experience gains and losses on scheme liabilities:			
amount (£ million)	(0.7)	0.5	(0.2)
percentage of scheme liabilities	-2%	1%	-1%
Total amount recognised in statement of total recognised gains and losses:			
amount (£ million)	(1.2)	3.5	(10.5)
percentage of scheme liabilities	-3%	9%	-28%

The total operating charge of £1.5m (2004: £2.4m) is included in 'Administrative expenses' in the Income and Expenditure Account whilst the net return of £0.1m (2004: £(0.3m)) is included in 'Pension finance income/(charge)' on the face of the Income and Expenditure Account.

The liabilities of the scheme have consistently been calculated on the basis that performance related bonuses are not pensionable. This is a complex matter and the Directors are seeking legal advice on this point to confirm the approach adopted. The Directors believe that the scheme liabilities have been calculated on a consistent and appropriate basis.

If there is any adverse impact when legal advice is received, the maximum effect would be to increase the scheme liabilities as at 31 March 2005 from £46.3m to £53.8m. In this event, the Directors would take appropriate action to mitigate any impact on the scheme.

Stakeholder Scheme

The total cost for the year of the stakeholder scheme was £38,000 (2004: £21,000) and at the end of the year there were no outstanding contributions. For the year to 31 March 2005 staff could contribute between 5 per cent. and 9 per cent. with the Society contributing on a sliding scale between 5 per cent. and 7 per cent.. From 1 April 2005, the scheme was amended with the minimum employee contribution starting at 2 per cent. and the Society providing matched funding up to 5 per cent., increasing then on a sliding scale up to 7 per cent.

9 Tax on profit on ordinary activities

	Group		*Society*	
	2005	*2004 Restated*	*2005*	*2004 Restated*
		(£m)		
UK Corporation tax at 30% (2004:30%)	9.7	9.2	7.3	7.7
Corporation tax over provision in respect of prior years	(0.2)	—	(0.1)	—
Total Corporation tax	9.5	9.2	7.2	7.7
Deferred tax	1.0	(0.3)	0.9	(0.5)
Tax on profit on ordinary activities	10.5	8.9	8.1	7.2

The current tax charge for the period differs from the UK standard rate of corporation tax of 30 per cent. The differences are explained below.

	Group 2005	Group 2004 Restated	Society 2005	Society 2004 Restated
		(£m)		
Profit on ordinary activities before tax	33.7	30.0	26.5	23.5
Current tax at 30%	10.1	9.0	8.0	7.1
Adjustment in respect of prior years	(0.2)	—	(0.1)	—
Non allowable revenue items	0.2	0.1	0.1	0.1
Capital allowance shortfall relative to depreciation	—	0.9	—	0.8
Timing differences	(0.9)	(1.2)	(0.9)	(0.9)
Other items	0.3	0.4	0.1	0.6
Total Corporation tax	9.5	9.2	7.2	7.7

10 Loans and Advances to Credit Institutions

Loans and advances to credit institutions have remaining maturities as follows:

	Group 2005	Group 2004 Restated	Society 2005	Society 2004 Restated
		(£m)		
Accrued interest	1.2	1.4	1.2	1.4
Repayable on demand	27.4	20.8	20.3	12.5
Other loans and advances by residual maturity payable:				
In not more than three months	253.6	293.7	253.6	293.7
In more than three months but not more than one year	18.1	25.5	18.1	25.5
	300.3	341.4	293.2	333.1

11 Debt Securities

	Group & Society 2005	Group & Society 2004
	(£m)	
Issued by public bodies	—	—
Issued by other borrowers	693.2	576.8
	693.2	576.8

Debt Securities have remaining maturities as follows:

	Group & Society 2005	Group & Society 2004
	(£m)	
Accrued interest	7.2	6.1
In not more than one year	492.5	465.5
In more than one year	193.5	105.2
	693.2	576.8
Transferable debt securities comprise:		
Unlisted	686.0	570.7

Securities are held for prudential liquidity purposes with the intention of use on a continuing basis in the Groups' activities and are therefore classified as financial fixed assets rather than current assets.

Movements during the year of debt securities held as financial fixed assets were as follows (excluding accrued interest):

	Group & Society (£m)
Net Book Value	
At 1 April 2004	570.7
Additions	587.1
Disposals and maturities	(471.8)
At 31 March 2005	686.0

12 Loans and Advances to Customers

	Group		*Society*	
	2005	*2004 Restated*	*2005*	*2004 Restated*
		(£m)		
The final maturity of loans from the date of the Balance Sheet is as follows:				
In not more than three months	4.6	5.5	2.2	3.0
In more than three months but not more than one year	17.8	11.8	11.8	7.7
In more than one year but not more than five years	288.5	163.5	235.8	134.7
In more than five years	4,394.0	3,796.6	3,430.5	3,182.0
	4,704.9	3,977.4	3,680.3	3,327.4
Less				
Provision for bad and doubtful debts	(10.3)	(11.7)	(6.5)	(8.1)
Deferred mortgage guarantee income	—	(0.6)	—	(0.6)
Non recourse finance	(231.4)	—	—	—
	4,463.2	3,965.1	3,673.8	3,318.7

Loans fully secured on land subject to non-recourse finance

A quasi-subsidiary of the Society, Sandwell Finance No 1 Plc has commercial loans secured on land subject to non-recourse finance. Repayment of the non-recourse funding facilities and the deferred consideration will be made solely from the cash flows generated by the underlying mortgages. The Society is not obliged to support any losses in respect of these loans other than to the extent of its subordinated and other funding, nor does it intend to do so.

The Society has rights to the residual income from commercial mortgages amounting to £231.4 million in Sandwell Finance No 1 Plc. These rights are subordinated to the creditors of the company. Non-Group providers of finance have no recourse other than to the assets of Sandwell Finance No 1 Plc.

Sandwell Finance No 1 Plc has total funding of £236.6million, £5.2 million of which has been funded by the Society.

The results of Sandwell Finance No1 Plc have been incorporated using the linked presentation method as a quasi-subsidiary. The summarised financial statements at 31 March 2005 are as follows:

Profit and Loss Account

	2005 (£m)
Interest receivable and similar income	13.2
Interest payable and similar charges	(11.4)
Net interest receivable	1.8
Administrative expenses	(1.8)
Profit on ordinary activities before tax	—
Tax on profit on ordinary activities	—
Profit for the financial year	—

Balance Sheet

Assets

Loans fully secured on land subject to non-recourse finance	223.5
Committed funds held to acquire loans fully secured on land	7.9
	231.4
Cash at bank	6.6
Other assets	0.1
Unamortised issue costs	1.8
	239.9

Capital and liabilities

Non-recourse finance	231.4
Subordinated funding from West Bromwich Building Society	2.8
Other funding from West Bromwich Building Society	2.4
Other liabilities	3.3
Capital and reserves	—
	239.9

Cash Flow Statement

Net cash inflow from operating activities	1.4
Capital expenditure and financial investment	(223.5)
Cash inflow before use of liquid resources and financing	(222.1)
Financing	236.6
Increase in cash in the period	14.5

Reconciliation of operating loss to net cash inflow from operating activities

Operating profit	—
Increase in other assets	(0.1)
Increase in other liabilities	3.3
Increase in unamortised issue costs	(1.8)
Net cash inflow from operating activities	1.4

13 Provision for Bad and Doubtful Debts

	Loans fully secured on residential property		*Loans fully secured on land*		*Total*		
	Specific	*General*	*Specific*	*General* *(£m)*	*Specific*	*General*	*Total*
Group							
At 1 April 2004	1.1	5.0	—	5.6	1.1	10.6	11.7
Acquired on acquisition of mortgage portfolios	—	1.2	—	—	—	1.2	1.2
Amounts written off	0.2	0.1	—	—	0.2	0.1	0.3
Charge for the Year comprises:							
Provisions made during the year	1.5	(2.7)	—	(1.3)	1.5	(4.0)	(2.5)
Adjustments to provisions resulting from recoveries	(0.4)	—	—	—	(0.4)	—	(0.4)
Charge/(credit) for the year	1.1	(2.7)	—	(1.3)	1.1	(4.0)	(2.9)
As at 31 March 2005	2.4	3.6	—	4.3	2.4	7.9	10.3
Society							
At 1 April 2004	0.1	2.7	—	5.3	0.1	8.0	8.1
Amounts written off	0.3	—	—	—	0.3	—	0.3
Charge for the Year comprises:							
Provisions made during the year	0.3	(0.6)	—	(1.2)	0.3	(1.8)	(1.5)
Adjustments to provisions resulting from recoveries	(0.4)	—	—	—	(0.4)	—	(0.4)
Charge/(credit) for the year	(0.1)	(0.6)	—	(1.2)	(0.1)	(1.8)	(1.9)
As at 31 March 2005	0.3	2.1	—	4.1	0.3	6.2	6.5

These provisions have been deducted from the appropriate asset values shown in the balance sheets.

14 Investments in subsidiary undertakings

Investments in subsidiary undertakings are analysed as follows:

	Society 2005 (£m)	2004
Investments in subsidiary undertakings		
Shares at cost or valuation	36.0	23.6
Loans	859.9	714.6
Total	895.9	738.2

Investments in subsidiary undertakings are financial fixed assets. The net movement in investments during the year is as follows:

	Society Total (£m)
At 1 April 2004	738.2
Revaluation of investment in subsidiaries	12.5
Additions	145.2
At 31 March 2005	895.9

The carrying value of the Societies investments in subsidiary undertakings is recorded using the alternative accounting rules. All such assets are included at their net asset value, which in the opinion of the Directors provides a reasonable approximation to the open market value. All revaluation surpluses are taken to reserves. Additions include the acquisition of Mortgage Force Limited (see note 15).

The interests of the Society in its principal subsidiary undertakings, all of which are consolidated, as at 31st March 2005 are set out below:

Name of subsidiary undertaking	*Group & Society Shareholding Ordinary Shares*	*Nature of business*
West Bromwich Mortgage Company Limited	100%	Hold and dispose of debts secured on land and lend money on the security of land
West Bromwich Commercial Limited	100%	Commercial lending
Mortgage Force Limited	100%	Franchised mortgage broker
WBBS Computer Finance Limited	100%	Leasing and licensing computer equipment
CL Mortgages Limited [1]	100%	Hold and dispose of debts secured on land and lend money on the security of land
West Bromwich Homes Limited	100%	Investment in property for rental

Note:
(1) The share capital of CL Mortgages is held by West Bromwich Mortgage Company Limited.

Quasi-subsidiaries

The companies considered by the directors to be quasi-subsidiaries as defined in Financial Reporting Standard No.5 are set out below:

Name	*Principal activity*
Sandwell Finance No 1 Plc	Securitisation vehicle
Sandwell Finance Holdings Limited	Holding company

The Society has no shareholdings in any of the companies listed above. Both are incorporated in England and Wales and operate in Great Britain.

15 Acquisitions

During the year the Group acquired two mortgage portfolios as detailed below.

The portfolios were acquired for a total consideration of £352.3million.

The assets were included within the Group Balance Sheet at fair value on acquisition as follows:

Date of Acquisition	*30 June 2004*	*26 January 2005 (£m)*	*Group Total*
Loans and advances (residential mortgage portfolio) at book value	221.5	121.0	342.5
Less: loss provisions	(1.1)	(0.1)	(1.2)
	220.4	120.9	341.3
Premium paid	3.0	8.0	11.0
Consideration	223.4	128.9	352.3

Acquisition of subsidiary

Mortgage Force Limited was acquired on 22 March 2005 and is included in the consolidated balance sheet at 31 March 2005. The operating results for the nine days since that date have not been included in the consolidated income statement on the basis of immateriality. The profit after tax of this company for the year ended 31 March 2004 was £0.121m.

The fair value of net assets and consideration at the date of acquisition were as follows:

	Book value	*Alignment of accounting policies (£m)*	*Fair value*
Tangible fixed assets	0.1	—	0.1
Debtors	1.8	(1.7)	0.1
Creditors (within one year)	(1.5)	1.4	(0.1)
	0.4	(0.3)	0.1
Deferred purchase consideration			0.8
Cash consideration			6.0
Consideration for shares, including costs and fees			6.8
Goodwill			(6.7)
			0.1

Given the recent date of acquisition, provisional fair values have been assigned to the net assets acquired and certain elements of the consideration paid. These will be reviewed during the course of 2005 and amended as necessary in the light of subsequent knowledge or events to the extent that these reflect conditions at the date of acquisition.

16 Tangible fixed assets

	Land and buildings: Freehold	Land and buildings: Short Leasehold	Investment Properties (£m)	Equipment, Fixtures, Fittings and Vehicles	Total
Group					
Cost or valuation					
At 1 April 2004	10.7	1.0	65.7	58.4	135.8
Additions	—	—	10.4	4.1	14.5
Revaluation	—	—	7.7	—	7.7
Disposals	(0.2)	—	(6.5)	(4.4)	(11.1)
At 31 March 2005	10.5	1.0	77.3	58.1	146.9
Depreciation					
At 1 April 2004	0.8	0.6	—	38.3	39.7
Charge for the year	0.2	0.1	—	5.4	5.7
Disposals	—	—	—	(4.2)	(4.2)
At 31 March 2005	1.0	0.7	—	39.5	41.2
Net Book value					
At 31 March 2005	9.5	0.3	77.3	18.6	105.7
At 31 March 2004	9.9	0.4	65.7	20.1	96.1
Land and buildings occupied by the Group and Society for its own purposes					
At 31 March 2005	9.5	0.3			
At 31 March 2004	9.9	0.4			

"Investment properties were revalued as at 31 March 2005 on a market value basis in accordance with the RICS Statements of Asset Valuation Practice and Guidance Notes by the Society's in - house qualified Chartered Surveyor, C Behan MRICS.

The valuation of the freehold properties has been reviewed and approved by the Society's Board and the valuation of the investment properties reviewed and approved by the directors of West Bromwich Homes Limited.

The net book value of the freehold properties on an historical cost basis would be £7.0m, and the historical net book value of the investment properties £56.0m.

	Land and buildings		Equipment, Fixtures, Fittings and Vehicles	
	Freehold	*Short Leasehold*		*Total*
		(£m)		
Society				
Cost or valuation				
At 1 April 2004	10.7	1.0	47.1	58.8
Additions	—	—	4.1	4.1
Disposals	(0.2)	—	(4.4)	(4.6)
At 31 March 2005	10.5	1.0	46.8	58.3
Depreciation				
At 1 April 2004	0.8	0.6	31.3	32.7
Charge for the year	0.2	0.1	4.3	4.6
Disposals	—	—	(4.2)	(4.2)
At 31 March 2005	1.0	0.7	31.4	33.1
Net Book value				
At 31 March 2005	9.5	0.3	15.4	25.2
At 31 March 2004	9.9	0.4	15.8	26.1

17 Intangible fixed assets

	Group & Society (£m)
Cost and net book value	
At 1 April 2004	—
Additions	6.7
At 31 March 2005	6.7

The goodwill is in connection with the purchase of a subsidiary company, Mortgage Force Limited as detailed in note 15. The goodwill is to be amortised over a period of 20 years. No charge has been made for the current year.

18 Other Assets

	Group 2005	Group 2004 Restated	Society 2005	Society 2004 Restated
		(£m)		
Unamortised mortgage portfolio acquisition premium	20.7	16.0	3.2	—
Other	17.3	0.7	16.1	0.5
Deferred tax asset (Note 9)	2.6	3.5	2.6	3.4
	40.6	20.2	21.9	3.9
The movement in the deferred tax asset is as follows:				
Deferred tax at 1 April 2004 as previously reported	1.6		1.5	
Prior year adjustment (see note 1)	1.9		1.9	
Deferred tax at 1 April 2004 as restated	3.5		3.4	
Amount charged to profit and loss	(1.0)		(0.9)	
Transferred to pension deferred tax asset	0.1		0.1	
Deferred tax asset included in other assets	2.6		2.6	
Deferred tax comprises:				
Short term timing differences	0.2	0.5	0.2	0.5
Capital allowances	(0.1)	0.1	0.2	0.4
General mortgage loss provisions	2.5	2.9	2.2	2.5
	2.6	3.5	2.6	3.4

19 Prepayments and Accrued income

	Group 2005	Group 2004 Restated	Society 2005	Society 2004 Restated
		(£m)		
Accrued income relating to off balance sheet instruments	7.0	23.2	7.0	23.2
Deferred mortgage incentive costs	11.7	7.6	11.7	7.6
Other prepayments and accrued income	5.1	1.9	1.6	1.0
	23.8	32.7	20.3	31.8

Deferred mortgage incentive costs includes £5.8 million (2004: £2.3 million) which will be deferred for more than one year.

20 Shares

	Group & Society 2005	Group & Society 2004
	(£m)	
Held by individuals	3,568.2	3,256.2
Other shares	1.0	1.1
	3,569.2	3,257.3

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

	Group & Society 2005 (£m)	2004
Accrued interest	106.8	79.7
Repayable on demand	2,138.9	2,212.2
Other shares by residual maturity repayable:		
In not more than three months	158.2	116.2
In more than three months but not more than one year	718.9	295.2
In more than one year but not more than five years	412.7	549.5
In more than five years	33.7	4.5
	3,569.2	3,257.3

21 Amounts owed to credit institutions

Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	Group & Society 2005 (£m)	2004
Accrued interest	1.1	0.1
Other amounts owed to credit institutions by residual maturity repayable:		
In not more than three months	199.0	330.0
In more than three months but not more than one year	0.5	—
In more than one year but not more than five years	10.2	—
	210.8	330.1

22 Amounts owed to other customers

	Group & Society 2005 (£m)	2004
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	6.4	5.4
Repayable on demand	66.2	60.4
Other amounts owed to customers with residual maturity repayable:		
In not more than three months	476.8	866.2
In more than three months but not more than one year	30.9	57.7
In more than one year but not more than five years	4.5	5.0
	584.8	994.7

23 Debt securities in issue

	Group & Society 2005	2004
	(£m)	
Certificates of Deposit	216.6	96.0
Fixed and floating rate notes	647.9	—
	864.5	96.0
Debt securities are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	2.5	0.5
Repayable on demand	—	—
Other debt securities in issue with residual maturity repayable:		
In not more than one year	213.0	95.5
In more than one year	649.0	—
	864.5	96.0

24 Other liabilities

	Group 2005	Group 2004	Society 2005	Society 2004
		(£m)		
Income tax	7.4	5.6	7.4	5.6
Corporation tax	3.9	3.6	1.4	1.6
Other creditors	0.2	1.4	0.3	0.3
	11.5	10.6	9.1	7.5
Other creditors include:				
Amounts owed to subsidiary undertakings			0.3	0.3

25 Accruals and deferred income

	Group 2005	Group 2004	Society 2005	Society 2004
		(£m)		
Accruals relating to off balance sheet instruments	3.7	12.3	3.7	12.3
Interest accrued on subordinated liabilities	1.3	1.2	1.3	1.2
Other	11.2	12.6	10.3	11.8
	16.2	26.1	15.3	25.3

26 Provisions for liabilities and charges

	Group & Society (£m)
Regulatory and other provisions	
At 1 April 2004	0.5
Utilised during the year	(0.5)
Charge for the year	2.5
At 31 March 2005	2.5

The brought forward provision as at 1 April 2004 and the comparative charge for the year have been reclassified. The Regulatory and other provisions amount of £0.5m as at 1 April was previously included within 'accruals and deferred income'. The comparative charge for 2004 of £0.5m was previously included under 'fees and commissions payable' in the Income & Expenditure Account.

27 Subordinated liabilities

	Group & Society 2005	2004
	(£m)	
Floating rate subordinated loan 2013	5.0	5.0
6.956% subordinated loan 2013	7.5	7.5
6.925% subordinated loan 2013	7.5	7.5
6.733% subordinated loan 2019	10.0	10.0
8.030% subordinated loan 2036	10.0	10.0
6.960% subordinated loan 2034	5.0	5.0
6.960% subordinated loan 2035	5.0	5.0
6.410% subordinated loan 2031	15.0	15.0
6.320% subordinated loan 2031	7.5	7.5
Floating rate subordinated loan 2014	10.0	10.0
5.625% subordinated bond 2025	25.0	—
	107.5	82.5

All notes are denominated in sterling.

The interest rate on both the floating rate subordinated loans 2013 and 2004 is reset half-yearly, at premia of respectively 1.25 per cent. and 1.60 per cent. over LIBOR.

The rights of repayment of the holders of subordinated debt are subordinated to the claims of depositors, all creditors and members holding shares in the Society, as regards the principal of their shares and interest due to them.

28 Reserves

(a) Revaluation Reserve

	Group	Society
	(£m)	
At 1 April 2004	18.7	26.4
Revaluation of investment in subsidiary companies	—	12.5
Surplus on revaluation of investment properties	7.7	
Realisation of revaluation reserve	(1.8)	(0.2)
At 31 March 2005	24.6	38.7

The potential tax liability on the surplus on revaluation is £5.6m (2004: £4.6m). This liability would crystallise if the revalued assets were sold.

(b) General Reserves

	Group	Society
	(£m)	
At 1 April 2004 as previously reported	227.9	220.2
Prior year adjustment (see note 1)	(5.8)	(5.8)
At 1 April 2004 as restated	222.1	214.4
Profit for the financial year	23.2	18.4
Realisation of revaluation reserve surpluses	1.8	0.2
Actuarial gains/(losses) net of deferred tax	(0.8)	(0.8)
At 31 March 2005	246.3	232.2

	Group 2005	Group 2004 Restated
	(£m)	
General reserve excluding pension liability	249.1	224.5
Pension reserve	(2.8)	(2.4)
General reserve	246.3	222.1

Financial commitments

(a) Capital commitments

	Group 2005	Group 2004	Society 2005	Society 2004
		(£m)		
Capital expenditure contracted but not yet provided for in the accounts	0.3	0.2	0.3	0.2

(b) Leasing commitments

At the balance sheet date, annual commitments under operating leases relating to land and buildings were as follows:

	Group 2005	Group 2004	Society 2005	Society 2004
		(£m)		
Leases which expire				
Within one year	0.1	0.1	0.1	0.1
Between two and five years	0.1	0.1	0.1	0.1
After five years	0.3	0.4	0.3	0.4
	0.5	0.6	0.5	0.6

(c) Loan commitments

	Group 2005	Group 2004	Society 2005	Society 2004
		(£m)		
Irrevocable undrawn loan facilities	311.0	248.2	293.3	240.2

Building Societies Investor Protection Fund

The Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme provided for by the Financial Services and Markets Act 2000.

29 Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. WBBS is a retailer of financial instruments, mainly in the form of mortgages, savings and insurance products. The Group also uses wholesale funding instruments to invest liquid asset balances and raise wholesale funding, and to manage the risks arising from its operations.

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. The structure is reviewed regularly by the Asset and Liability Committee ("**ALCO**"), which is charged with the responsibility for managing and controlling the balance sheet exposures of the Group. The minutes of ALCO are presented quarterly to the Board.

Instruments used for risk management purposes include derivative financial instruments ("**derivatives**"), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

Derivatives are only used by the Group in accordance with the Act 1986, i.e. they are not used for trading or speculative purposes. They are used solely to reduce the risk of loss arising from changes in interest rates or other factors of a prescribed description which affect the business.

The Board has authorised the use of derivatives in accordance with the Act 1986.

All limits over the use of derivative products are the responsibility of ALCO.

Risk management

The Group's main activities, associated risks and the instruments used to manage those risks are set out in the table below:

Activity	*Risk*	*Managed by*
Management of the investment of reserves and other non-interest bearing liabilities	Sensitivity to changes in interest rates	Matching against fixed rate assets and use of interest rate swaps
Fixed rate mortgage lending and other assets	Sensitivity to rises in interest rates	Pay fixed rate interest rate swaps and swaptions, matching against fixed rate liabilities
Fixed rate savings products and funding	Sensitivity to falls in interest rates	Receive fixed rate interest rate swaps and swaptions, matching against fixed rate assets
Investments or funding denominated in foreign currencies	Sensitivity to changes in interest rates and currency exchange rates	Cross currency interest rate swaps
Equity linked investment products	Sensitivity to changes in equity indices	Equity linked swaps and options

Outstanding Derivative Contracts

The table below shows the notional principal amounts, replacement costs of derivatives and credit risk weighted amounts.

Notional principal amounts indicate the volume of business outstanding at the Balance Sheet date and do not represent amounts at risk.

The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the Balance Sheet date and reflects the Group's maximum exposure should all counterparties default. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and nature of the counterparty.

	Group & Society	
	2005	*2004*
	(£m)	
Notional Principal amounts		
Interest rate swaps	536.1	2,050.1
Equity contracts	116.3	66.3
Cross currency interest rate swaps	347.5	—
Swaption	9.7	—
Total	1,009.6	2,116.4
Replacement cost		
Interest rate swaps	5.5	19.1
Equity contracts	2.3	0.3
Cross currency interest rate swaps	—	—
Swaption	—	—
Total	7.8	19.4
Credit risk weighted amount		
Interest rate swaps	1.8	4.5
Equity contracts	2.5	0.1
Cross currency interest rate swaps	3.5	—
Swaption	—	—
Total	7.8	4.6

Interest rate risk

The Group is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board, using a combination of on and off balance sheet instruments.

The interest rate sensitivity of the Group was:

	As at 31 March 2005						
	Not more than three months	*More than three months but not more than six months*	*More than six months but not more than one year*	*More than one year but not more than five years*	*More than five years*	*Non-interest bearing*	*Total*
				(£m)			
Assets:							
Liquid assets	766	35	173	10	7	10	1,001
Loans fully secured on residential property and other loans	3,189	304	170	582	228	(10)	4,463
Tangible and intangible fixed assets	—	—	—	—	—	106	106
Other assets	—	—	—	—	—	71	71
Total assets	3,955	339	343	592	235	177	5,641
Liabilities:							
Shares	2,302	272	447	413	34	101	3,569
Amounts owed to credit institutions, other customers and debt securities in issue	1,610	28	7	5	—	10	1,660
Other liabilities	—	—	—	—	—	31	31
Net pension liability	—	—	—	—	—	3	3
Subordinated liabilities	5	10	—	15	77	—	107
Reserves	—	—	—	—	—	271	271
Total liabilities	3,917	310	454	433	111	416	5,641
Off balance sheet items	(240)	30	197	16	(3)	—	—
Interest Rate Sensitivity Gap	(202)	59	86	175	121	(239)	—
Cumulative Interest Rate Sensitivity Gap	(202)	(143)	(57)	118	239	—	—

	As at 31 March 2004 — Restated						
	Not more than three months (£m)	*More than three months but not more than six months*	*More than six months but not more than one year*	*More than one year but not more than five years*	*More than five years*	*Non-interest bearing*	*Total*
Assets:							
Liquid assets	683	104	111	10	7	12	927
Loans fully secured on residential property and other loans	2,593	130	434	651	169	(12)	3,965
Tangible and intangible fixed assets	—	—	—	—	—	96	96
Other assets	—	—	—	—	—	53	53
Total assets	3,276	234	545	661	176	149	5,041
Liabilities:							
Shares	2,328	56	239	549	5	80	3,257
Amounts owed to credit institutions, other customers and debt securities in issue	1,350	47	12	6	—	6	1,421
Other liabilities	—	—	—	—	—	38	38
Net pension liability	—	—	—	—	—	2	2
Subordinated liabilities	5	10	—	—	67	—	82
Reserves	—	—	—	—	—	241	241
Total liabilities	3,683	113	251	555	72	367	5,041
Off balance sheet items	(22)	(140)	(70)	369	(137)	—	—
Interest Rate Sensitivity Gap	(429)	(19)	224	475	(33)	(218)	—
Cumulative Interest Rate Sensitivity Gap	(429)	(448)	(224)	251	218	—	—

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Other assets include other loans, other assets, prepayments and accrued income.

Other liabilities include other liabilities, accruals and deferred income, provisions for liabilities and charges.

Gains and losses on hedges

Hedges which comprise the 'Derivatives' referred to above are used to reduce the risk of loss arising from changes in interest rates.

Gains and losses on instruments used for hedging are recognised in line with the underlying items which are being hedged. The unrecognised gains on instruments used for hedging as at 31 March 2005 were £6.2m (2004: £8.9m) and unrecognised losses were £23.2m (2004: £20.2m).

Unrecognised gains of £3.6m and unrecognised losses of £0.1m are expected to be recognised in the year ending 31 March 2006.

The net gains/(losses) recognised in the year in respect of previous years' unrecognised gains and losses resulted in a net gain of £4.4m (2004: gain £1.6m) to the income and expenditure account.

Fair values of financial instruments

Set out below is a comparison of book and fair values of some of the Group's financial instruments by category as at 31 March 2005. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist, Thus it excludes mortgages, retail savings accounts and other balance sheet items whose book and fair values differ at 31 March 2005.

	Book value 2005	*Fair value 2005*	*Book value 2004*	*Fair value 2004*
		(£m)		
On balance sheet instruments				
Liquid assets	1,000.7	1,001.1	926.9	926.9
Wholesale liabilities	(1,660.1)	(1,659.2)	(1,420.8)	(1,420.6)
Subordinated liabilities	(107.5)	(124.7)	(82.5)	(97.9)
Off balance sheet instruments				
Derivatives (excluding accrued interest)	—	(8.8)	—	(11.3)

The negative value on derivatives is broadly offset by the net increase in the fair value of the underlying balance sheet items which they hedge. The derivatives are expected to remain in place until maturity or until there is a material change in the nature of the underlying balances. The movement in the fair value and the book value of derivatives reflects the effect of the change in the shape of the relevant interest rate yield curve since these derivatives were arranged.

Liquid assets comprise cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

Wholesale liabilities comprise certain financial liabilities reported within amounts owed to credit institutions, amounts owed to other customers and debt securities in issue for which an active and liquid market exists.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cashflow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved by maintaining prudent levels of liquid assets and wholesale funding facilities and by management control of growth of the business.

In addition it is the Group's policy to maintain undrawn committed borrowing facilities in order to provide flexibility in the management of the Group's liquidity. At the year end, the Group had committed facilities of £330m (2004: £575m) with 6 banks (2004: 23), none of which (2004: £330m) was drawn at the year end. The weighted average period to maturity of those facilities was 2.3 years.

Currency risk

The Group is exposed to movements in foreign currency exchange rates, and manages this exposure on a continuous basis, within limits set by the Board, using off balance sheet instruments. Included in the Group balance sheet at 31 March 2005 is £347.5m (2004: £nil) of fully hedged liabilities denominated in a currency other than sterling.

30 Directors' Loans and Related Party Transactions

The aggregate amount outstanding at the end of the financial year in respect of loans from the Society or a subsidiary undertaking to Directors of the society or person connected with a Director of the Society was £538,000 being mortgage loans to three of the directors. These loans are all at normal commercial rates.

A register is maintained by the Society containing details of loans and transactions and arrangements made between the Society or its subsidiary undertakings and Directors of the Society or persons connected with Directors of the Society.

The register will be available for inspection by members at the Annual General Meeting and during normal office hours at the Society's Principal Office (374 High Street, West Bromwich) during the period 15 days prior to the Meeting.

There are no related party transactions which require disclosure under FRS 8 (*Related Party Disclosure*).

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

Statutory percentages

	2005	*Statutory Limit*
	(%)	
Lending limit	16.1	25.0
Funding limit	31.8	50.0

The above percentages have been calculated in accordance with the provisions of the Act 1986.

The Lending limit measures the proportion of business assets not in the form of loans secured on residential property. Business assets are the total assets of the Group plus provisions for bad and doubtful debts less liquid assets and tangible fixed assets as shown in the Group Accounts.

The Funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

Other percentages

	2005	*2004 Restated*
	(%)	
As a percentage of shares and borrowings:		
Gross Capital	7.24	6.91
Free Capital	5.37	5.08
Liquid assets	19.14	19.81
Profit for the financial year as a percentage of mean total assets	0.43	0.45
Management expenses as a percentage of mean total assets	0.80	0.98

The above percentages have been prepared from the Group's accounts and in particular:

- "Shares and borrowings" represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue, in each case including accrued interest.
- "Gross Capital" represents the aggregate of general reserves, revaluation reserve and subordinated liabilities
- "Free Capital" represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less tangible fixed assets.
- "Mean total assets" represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- "Liquid Assets" represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.
- "Management Expenses" represent the aggregate of administrative expenses, depreciation and amortisation.

DIRECTORS' REPORT

The Directors are pleased to present their Annual Report, together with the Audited Accounts, for the financial year ended 31 March 2005.

Business Objectives and Activities

The Group's business objectives, current performance and future plans are reviewed by the Chairman, Chief Executive and Finance Director in the Annual Report.

Profit and Capital

The Group's profit before tax amounted to £33.7 million (2003/04 £30.0 million restated). The amount transferred to reserves before adjustment for pensions scheme liabilities but after taking into account the surpluses generated by our residential investment subsidiary, West Bromwich Homes Limited, was £30.9 million (£2003/04 27.7 million). At the end of the year, the gross capital ratio stood at 7.24 per cent. and free capital 5.37 per cent.

Assets

Total mortgage assets under management for the Group increased by £730 million to £4.7 billion at 31 March 2005, representing growth of 18.4 per cent.

Mortgage Arrears

At 31 March 2005 there were 15 residential and commercial mortgage accounts where payments were 12 months or more in arrears. The total amount outstanding on these accounts was £1.03 million, representing 0.03 per cent. of mortgage balances, and the amount of arrears was £0.127 million. Appropriate provisions were made for potential losses on mortgages in accordance with the provisioning policies set out in note 1 to the Accounts.

Supplier Payment Policy

The Society's policy is to agree the terms of payment before trading with the supplier and to pay in accordance with its contractual and other legal obligations. The creditor days, as at 31 March 2005, were 30 days, which is in line with the Society's aim of paying creditors promptly.

Charitable Donations

The Society does not make direct contributions to charities, although we help raise significant sums through our community programme and voluntary staff initiatives. We also support numerous community-based projects at an overall cost in excess of £100,000. No donations were made for political purposes.

Treating Customers Fairly

Focusing on customer needs is one of our defining attributes and we remain strongly committed to transparency and fairness in our dealings with members. In 2004, the Financial Services Authority launched a principle-based initiative — *Treating Customers Fairly* — to raise awareness and standards of fair treatment and to make this principle integral to business. We fully support this move, which mirrors the Society's values and relationship with customers.

Corporate Social Responsibility

We take our corporate and social responsibilities seriously and are committed to behaving in a manner that is worthy of the trust of our staff, customers, suppliers and communities. We continue to promote equality and diversity in the workplace. There are numerous examples of activities from which we can derive considerable pride, especially our staff who make a significant contribution to the communities in which we operate. We continue to manage our other social responsibilities, including the impact on the environment.

We have summarised below a brief outline of what we have achieved. Our future focus will be on the integration and awareness of Corporate Social Responsibility across the Society's operations.

	Our focus in 2004/5 was:	Our Achievements in 2004/05 included:
Marketplace	Advice and access to basic financial services for the vulnerable and financially excluded.	For the 4th year running, we attained gold status in the benchmarking study conducted by Race for Opportunity, a national campaign of Business in the Community.
	Meeting the diverse needs of customers. Ensuring our business was conducted ethically and responsibly.	Re-launch of the Ethnic Working Group to focus on the diverse needs of our customers. Supported the Government-sponsored Child Trust Fund to educate families into the necessity of saving for their future. Introduced the Oak Account, giving pensioners access to higher rates for passbook accounts and free financial advice.
Workplace	Raising standards of equality and diversity throughout the Society. The improvement of benefits to support our employees. The assessment and improvement of health and safety in the workplace.	Recorded progress in a series of measures to extend diversity in the workplace and embed greater awareness. This was recognised in winning Business in the Community's Regional and National Award for Excellence in Diversity. The introduction of new benefits, including tax efficient home computing and "bike to work" initiatives. The launch of workstation assessments for "at risk staff". Continued to raise the profile of concerns and aspirations of female staff through the Society's Women at West Brom Forum.
Community	The further improvement of our strong track record of involving employees with community activities.	Reacted swiftly to the concerns surrounding MG Rover with a package of help for the workforce and other workers hit by the Company's predicament. Financial counselling, referral to specialist job agencies, and specific financial assistance for workers with a mortgage with the Society, were part of a package of measures to alleviate some of the more immediate worries encountered by workers and their families.
	The economic prosperity of our local community.	Encouraged all staff to engage in events and activities to support the community. Joined forces with over 200 companies and organisations in developing PaySave schemes to encourage employees to save through direct deduction from salaries. Increased the number of affinity accounts to 11, forging links with a variety of well-known sporting clubs and community projects across the West Midlands. Sponsored and provided other financial support to over 500 community groups and charitable causes in partnership with the Mercian Trust, founded to target benefits to disadvantaged groups and those most in need. We instigated a national campaign Raise the Roof to demand a better deal for first-time buyers and people on low incomes by persuading the Chancellor to raise the lower threshold on Stamp Duty.
Environment	To monitor and review our environmental performance.	Reduced waste and energy consumption through improved building management systems and increased recycling. Required preferred suppliers to observe strict environmental practices and policies.

Staff

The Society is an equal opportunities employer and it gives full consideration to all applicants for employment from disabled people in relation to the vacancy concerned and to the applicant's own aptitude and abilities. If existing staff members become disabled, every effort is made to enable them to maintain their present position or to provide appropriate training.

Regulation

The Society's affairs are regulated by the Financial Services Authority.

Auditors

The auditors, KPMG Audit Plc, have expressed their willingness to continue in office and, in accordance with Section 77 of the Act 1986, a resolution for their re-appointment will be proposed at the Annual General Meeting.

Directors

The following persons were directors of the Society during the year:

Roger J Dickens (Chairman)
Susan Battle
Norman S Cooper (Retired July 2004)
Gary T Cowdrill* (Finance Director)
Edwin Hucks (Senior Independent Director)
Lesley James
Stephen A Karle* (Operations Director and Group Secretary)
Andrew MacKenzie
Andrew Messenger* (Chief Executive)
Bharat Shah (Appointed July 2004)
Roger D Smith* (Group Development Director)
Graham J Wentzell
Brian Woods-Scawen

*Executive Directors

None of the directors has any beneficial interest in, share in or debentures of, any associated body of the Society. All directors are members of the Society.

Roger Dickens
Chairman
25 May 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' Responsibilities for Preparing the Annual Accounts

The following statement, which should be read in conjunction with the Independent Auditors' Report on pages 70 and 71, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The directors are required by the Act 1986 (the "**Act**") to prepare, for each financial year, Annual Accounts which give a true and fair view:

- of the state of the affairs of the Society and the Group as at the end of the financial year; and
- of the income and expenditure of the Society and the Group for the financial year.

In preparing those accounts, the directors are required to:

- select the most appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the Accounts, the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and the Group.

Directors' Responsibilities for Accounting Records and Internal Control

The directors are responsible for ensuring that, in accordance with the Act, the Society and the Group:

- keep adequate accounting records; and
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to their business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors also have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going Concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Signed on behalf of the Board

Roger Dickens
Chairman
25 May 2005

AUDITORS' REPORT

Page numbers mentioned in the Auditor's Report refer to the page numbers in the 2005 Annual Report and Accounts and not the page numbers of this Prospectus.

Independent Auditors' Report to the Members of West Bromwich Building Society

We have audited the Annual Accounts on pages 28 to 50. We have examined the Annual Business Statement (other than the details of directors and officers upon which we are not required to report) and the Directors' Report on pages 51 and 16 to 18 respectively.

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Directors' Report, the Annual Business Statement and, as described on page 26, the Annual Accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the Annual Accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. We also report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the Annual Accounts and whether the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the Annual Accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information accompanying the Annual Accounts, the Annual Business Statement and the Directors' Report and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, Annual Business Statement and Directors' Report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Annual Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Annual Accounts.

Opinion

In our opinion:

(a) the Annual Accounts give a true and fair view of the state of affairs of the Society and of the Group as at 31 March 2005 and of the income and expenditure of the Society and of the Group for the year then ended;

(b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;

(c) the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and

(d) the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Birmingham
25 May 2005

REASONS FOR THE ISSUE AND USE OF PROCEEDS

The net proceeds of the issue of the PIBS (estimated to be approximately £73,933,500 (before expenses)) will be used by the Society to strengthen its capital base and to continue the ongoing development of the Society's business. The net proceeds will be treated for capital adequacy purposes as forming part of the Society's regulatory capital.

UNITED KINGDOM TAXATION

The following is a summary of the Society's understanding of current law and practice in the United Kingdom relating to the taxation of the PIBS. The summary only relates to the deduction of United Kingdom tax from interest on the PIBS and to the taxation treatment of United Kingdom corporation taxpayers which are the absolute beneficial owners of the PIBS and the interest on them and some aspects do not apply to certain classes of taxpayer (such as dealers). The summary does not apply to other United Kingdom taxpayers. **Prospective PIBS holders who are in any doubt as to their tax position should seek their own professional advice**.

Interest on the PIBS

1 While the PIBS continue to be listed on a recognised stock exchange within the meaning of section 841 Income and Corporation Taxes Act 1988, payments of interest may be made without withholding or deduction for or on account of income tax. The London Stock Exchange is a recognised stock exchange. Under an HMRC published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the UK Listing Authority and admitted to trading on the London Stock Exchange's market for listed securities.

2 In other cases, if the PIBS were to cease to be capable of being so listed then on making a payment of interest an amount will be withheld by the Society on account of United Kingdom tax at the lower rate (currently 20 per cent.) unless certain exemptions applied.

3 Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to Her Majesty's Revenue and Customs ("**HMRC**") regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

4 The Society is required each year to supply to HMRC particulars of all interest paid or credited in relation to the PIBS.

Corporation Tax Payers

5 PIBS holders who are subject to United Kingdom corporation tax will be charged to tax on profits and gains from the PIBS under the "loan relationships" regime in the Finance Act 1996, broadly in accordance with their accounting treatment.

Stamp Duty

6 No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the PIBS or on their purchase by the Society.

Withholding Tax: European Union Directive on the Taxation of Savings Income

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income. From 1 July 2005 the Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

MARKETING ARRANGEMENTS

The Manager has, pursuant to a subscription agreement dated 26 July 2005 (the "**Subscription Agreement**"), agreed with the Society, subject to the satisfaction of certain conditions (including, without limitation, the admission of the PIBS to the Official List becoming effective by not later than 29 July 2005 or such later date as the Society and the Manager may agree), to subscribe for, or procure subscribers for, the PIBS at the issue price of 99.828 per cent. of their principal amount. The Society has agreed to pay the Manager a commission of 1.25 per cent. of such principal amount if the conditions to which the issue of the PIBS is subject are satisfied or waived by the Manager. The Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Manager against certain liabilities in connection with the issue of the PIBS.

It is the intention of the Society to distribute the PIBS as widely as possible. Accordingly, the Manager reserves the right to retain a portion of the offering for the purpose of making ongoing sales, at its absolute discretion, to professional intermediaries. The Manager will not directly market the PIBS to the public.

The PIBS have not, prior to the date of this document, been marketed or made available in whole or part to the public.

The PIBS have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to United States persons otherwise than in accordance with applicable United States securities laws and regulations. The Manager has agreed that it will not offer or sell a PIBS within the United States or to United States persons otherwise than in accordance with applicable United States securities laws and regulations.

In addition, until 40 days after the commencement of the offering, an offer or sale of a PIBS within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the PIBS in circumstances in which Section 21(1) of the FSMA does not apply to the Society; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the PIBS in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in the Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of PIBS to the public in that Relevant Member State prior to the publication of a prospectus in relation to the PIBS which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of PIBS to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Society of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of PIBS to the public**" in relation to any PIBS in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the PIBS to be offered so as to enable an investor to decide to purchase or subscribe the PIBS, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

No action has been or will be taken by the Society or the Manager that would permit a public offer of the PIBS in any country or jurisdiction where action for that purpose is required. The PIBS may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the PIBS may not, directly or indirectly, be offered or sold and neither this document nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Neither the Society nor the Manager represents that the PIBS may at any time lawfully be sold in or from any jurisdiction (other than in or from the United Kingdom) in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.

GENERAL INFORMATION

No change

There has been no material adverse change in the prospects of the Society or the Group and there has been no significant change in the financial position of the Society or of the Group since 31 March 2005, being the date when the latest audited accounts were published.

Litigation

Neither the Society nor any of its subsidiary undertakings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Society is aware), during the past 12 months which may have, or have had in the recent past, significant effects on the Society and/or any of its subsidiary undertakings' financial position or profitability.

Auditors

The consolidated accounts of the Society for the three years ended 31 March 2005 have been audited in accordance with United Kingdom auditing standards by KPMG Audit Plc (Chartered Accountants regulated by the Institute of Chartered Accountants in England and Wales) and have been reported upon without qualification.

Authorisation

The issue of the PIBS was authorised by resolutions of the Board passed on 29 June 2005 and by resolutions of a Committee of Directors dated 21 July 2005.

Expenses

The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to approximately £1,106,000 (exclusive of VAT).

Material contracts

Members of the Group have entered into or will enter into the following contracts (other than in the ordinary course of business) which could result in any member of the Group being under any obligation or entitlement which is material to the Society's ability to meet its obligations to PIBS holders under the terms of the PIBS at the date of this document:

(i) the Subscription Agreement dated 26 July 2005 between the Manager and the Society, as described in more detail on page 79; and

(ii) the Registrar's Agreement to be dated 29 July 2005 between Lloyds TSB Registrars (the "**Registrar**") and the Society appointing the Registrar as registrar for the issue, as described in more detail on page 17.

Registrar

The Society, pursuant to the Registrar's Agreement to be dated 29 July 2005 will appoint Lloyds TSB Registrars at its specified office at The Causeway, Worthing, West Sussex BN99 6DA to maintain the PIBS Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of maintaining the PIBS Register, accepting instructions for, and effecting, transfers of PIBS, issuing PIBS Certificates to new PIBS holders, receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed PIBS Certificates and making payments in respect of the PIBS as they fall due.

PIBS Certificates

No temporary documents of title shall be issued by the Society in respect of the PIBS. The Registrar will, from 29 July 2005, commence despatching the PIBS Certificates to all PIBS holders who decide to hold their PIBS in certificated form, at the risk of the persons entitled thereto, by first class post to the address detailed on the relevant application form. The ISIN for the PIBS is GB00B0CX2M20 and the SEDOL number is B0CX2M2. PIBS will be held and transferred through the CREST System operated by CRESTCo Limited.

Payment for the PIBS

Payment for the PIBS subscribed for by the Manager or by persons procured by the Manager will be made by telegraphic transfer (or other approved means) to the account nominated by the Society in accordance with the Subscription Agreement.

Subsidiary undertakings

Details of the subsidiary undertakings of the Society are set out on page 51 of this document.

Documents for inspection

Copies of the following documents may be inspected at the offices of the Society at 374 High Street, West Bromwich, West Midlands, B70 8LR during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

(i) the Rules and the Memorandum; and

(ii) the published audited consolidated accounts and audit reports of the Society for each of the years ended 31 March 2004 and 2005.

PRINCIPAL OFFICE OF THE SOCIETY

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