Recommended cash offer for TSB Banking Group

20 March 2015
Disclaimer

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1. Transaction and strategic rationale
2. TSB franchise overview
3. Financial considerations
4. Additional data
Sabadell launches a cash offer for 100% of TSB Banking Group plc (TSB)

Offer has been recommended by the Board of TSB and supported by Lloyds Banking Group (50% shareholding)

Sabadell pays 340 pence per share, with a total consideration of GBP1,700M, implying a price to book value multiple of 1.0x

This is a capital neutral transaction

Strategic rationale:

- Internationalisation: Progressively strengthening our footprint abroad, a key part of our business plan
- Entering into the attractive UK banking market
- TSB is a strong challenger bank franchise, well positioned for growth
- Sabadell can enhance TSB’s growth strategy and efficiency
- EPS enhancing in the medium term
Transaction description

1. **Transaction**
   - Sabadell launches an offer for 100% of TSB
   - Broadly EPS neutral in the short term and accretive in the medium term
   - Synergies of c.GBP160M pre-tax expected to be achieved in the third full year after completion
   - Friendly offer which has been recommended by the Board of TSB
   - Lloyds and Sabadell have entered into a sale and purchase, irrevocable undertaking and call option deed under which:
     1) Sabadell has acquired c.9.99% of TSB’s share capital;
     2) LBG has granted a hard irrevocable undertaking over its remaining stake (c.40%); and
     3) a call option over 20% of that remaining stake
   - Offer is conditional upon regulatory approvals

2. **Payment**
   - The consideration is 100% cash
   - A premium of 29% to TSB’s closing share price on 11 March 2015*
   - Sabadell pays 340 pence per share, with a total consideration of GBP1,700M, implying a price to book value multiple of 1.0x

3. **Funding**
   - The acquisition is not conditional on any fund raising and is being financed through existing cash resources
   - However, to maintain our conservative capital position we are ready to launch a rights issue immediately following announcement
   - Rights issue of c.€1,600M with a resulting proforma fully loaded CET1 ratio of 11.6%

*11 March 2015 is the last Business Day before the joint announcement by Sabadell and TSB.
Strategic rationale

1. Internationalisation
   - Entering new markets is a key part of the Triple Business plan, presented in February 2014
   - Proforma, 22 percent of overseas assets, up from 5%¹

2. UK market
   - Stable financial system with a robust regulatory system
   - Attractive returns and prospects
   - Fragmented challenger bank market with opportunities for growth and consolidation

3. Management track record
   - Successful delivery on all strategic plans to date
   - Sabadell intends to accelerate TSB’s strategic development and financial performance
   - Proven ability and IT know-how in integrating and migrating acquisitions onto Sabadell’s platform

4. TSB
   - Pure-play retail focused UK bank, aligned with Sabadell’s expertise
   - Focused on a product range which is well understood by Sabadell
   - Attractive distribution reach
   - Strong capital and attractive funding profile supporting further growth

5. Financial returns
   - Substantial pre-tax synergies of c.GBP160M from IT optimisation in the third full year after completion
   - GBP450M contribution by Lloyds to TSB more than offsets implementation costs of IT migration
   - Additional revenue benefits expected by accelerating the development of TSB’s franchise
   - CET1 capital neutral post rights offering and earnings enhancing in the medium term

¹ Estimated data as of December 2014.
Internationalisation Triple plan: Sowing the seeds for future growth

Entering new markets is a key part of our Triple business plan as presented to the markets in February 2014
Internationalisation
Progressively strengthening our footprint abroad

- Internationalisation is in Sabadell’s strategy
- The transaction increases the group’s assets abroad to c.22% from c.5%

**London Branch:**
- # branches: 1
- Volume\(^1\): €997M
- Net profit contribution: 1.34%

**United States:**
- # branches: 29
- Volume\(^1\): €9,092M
- Net profit contribution to the group: 8.5%

**TSB provides the opportunity to boost the international dimension of Sabadell**

\(^1\) Volume includes gross loans to customers and on-balance sheet customer funds. Data as of December 2014.
United Kingdom
An attractive banking market

- Good performance of the economic activity
- Positive behaviour of the labour market
- Highly competitive services sector
- Well defined regulatory framework
- The net wealth of households is relatively high
- Household wealth fairly distributed between financial and real estate assets
- Robust market with solid growing perspectives
- Retail and SME banking offer attractive prospects
- Profitable banking sector

Real GDP (QoQ in %)

Return on Average Tangible Equity 2015e

Source: IBES Consensus Estimates as of March 2015.
# United Kingdom

## Solid financial and economic variables

### GDP (YoY in %)

-2% 0% 2% 4% 6%


### Inflation (Annual average in %)

3% 4% 5%


### Current account balance (as % of GDP)

-5% -4% -3% -2% -1% 0%


### Interest rates (in %)

0% 1% 2% 3% 4% 5% 6%


Sources: Eurostat, European Commission and Bloomberg. Sabadell forecasts for 2015, with the exception of the current account balance (European Commission).
United Kingdom
Stable financial system and real estate market

The financial system is in a solid position

Financial system and household balance

Financial assets quality indicators

- Mortgage loans represent over 60% of total loans (of the financial system)
- Most of the entities performed well under the stress tests of the real estate market

Management track-record: IT Know-how allows Sabadell to grow through domestic and international acquisitions

Gross loans to customers
Euros in million

Organic and inorganic growth, with capital strengthening and internationalisation during the crisis
Sabadell has the know-how in banking integration processes and this is shown in its track-record.
Management track-record: IT Know-how
Projected evolution of the IT model / OPs

Evolution started in 2012, with the acquisition of Banco CAM

More efficient model:
• Digital
• Customer oriented
• Process based

Ready to be adapted to different countries:
• Core banking ready to be localised to different countries
• Global and domestic components defined
• Multi-country, multi-brand, multi-entity, multi-language

Proteo 4.0
New Sabadell IT platform and digital architecture
Management track-record: IT Know-how

Proteo2
- 2011
  - Fat Java Client (Teller)
  - First mobile app (BSmobile)

Proteo3
- 2012
  - Virtualised desktop (thin clients)
  - Virtual Private Cloud infrastructure

- 2013
  - New Teller app
  - Remote access for employees

Proteo4
- 2014
  - First SOA catalogue
  - Proteo Mobile (Teller on tablets)
  - Signature on e-Pads

- 2015
  - Remote contracting
  - Electronic signature
Management track-record: IT Know-how Proteo4 high level components

**Front Apps**
- Web App
- Mobile Apps
- Desktop Apps

**International Abstraction Layer**
- SOA International Service Catalogue
- Common Components
  - Identity Manager
  - Fraud Detection
  - Real Time Decision
  - Event Management

**Domestic Back Offices**
- INNER CORE BANKING
- Domestic Compliance
- Admin. (Payroll & Others)

**Global Back Offices**
- HR
- (others)

**Global Data Lake**
- A Global Data Lake consolidates international customers information into a single data model

- Localised version of Proteo4 front apps by country
- Front Apps are built on top of a global framework

- An international SOA¹ service catalogue (BIAN² inspired) is available for each Proteo4 instance
- Around 300 services to support pure digital processes

- Domestic instance of Inner Core Banking to fulfill and settle pure banking transactions
- This layer is completed with a combination of domestic and global back office platforms

¹ Service Oriented Architecture. ² Banking Industry Architecture Network.
Management track-record: IT Know-how @ TSB
IT migration and integration timeline

Provided the positive financials of the transaction at inception, IT migration and integration calendar will not be executed with customary Sabadell integration calendar.

- **Preparation of IT / OPs integration**
  - Detailed IT project plan (calendar, team sourcing, vendor selection, etc.)
  - White paper IT/OPs UK
  - Macro-dossiers (initial understanding of key gaps)

- **Processes Design**

- **Proteo3.5 architecture and global back offices** (HR, Treasury, etc…)

- **UK Core Banking**
  (inner core banking UK and other domestic back offices: domestic compliance, admin. -payroll & others-, etc…)

- **Basic UK front apps**
  (Web app, Desktop apps)

- **Migration**

- **Upgrade to Proteo4**

- **Extended UK platform on production on ring-fenced branches**

- **Platform Ready**
  Q4 2016

- **Integration**
  Q4 2017
1. Transaction and strategic rationale
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4. Additional data
TSB Description

- TSB was created as Trustee Savings Bank in 1810 and the TSB business eventually acquired by Lloyds Bank in 1995
- Spin off in 2013 by Lloyds and IPO’d in 2014 – resurrected as TSB brand with an EC mandated customer and mortgage portfolio
- Lloyds Bank currently holds 50% and is required to sell before year end
- Now one of the largest challenger banks in the UK, with a strong franchise and well positioned for growth
- Focused on mortgages, personal current accounts and savings products
- 631 branches and c.8,600 employees
- GBP21,728M in gross loans to customers (23% of Sabadell’s), GBP24,625M in customer deposits (32% of Sabadell’s) and GBP27,171M total assets (21% of Sabadell’s)”¹
- UK market share of 2.2% in direct mortgages and 4.3% in personal accounts
- Network distribution c.6.1% of total UK branches
- Temporarily reliant on Lloyds for a range of IT and related services

Source: TSB 2014 Annual Reports.
¹ Comparison as of December 2014.
TSB
Assets Breakdown

Balance Sheet
(GBP bn, Dec-2014)

Customer Loans
(GBP bn and %, Dec-2014)

Franchise Lending Breakdown

Franchise Lending 18.8bn
Mortgage Enhancement* 2.8bn
Total Lending 21.6bn
Franchise LTD Ratio 77%
LTV 41.5%
Group NPL Ratio 0.9%
Group Coverage Ratio 42%

Residential Mortgages Geographic Distribution

Scotland 24%
South East 18%
London 17%
South West 10%
West Midlands 7%
Others 23%

Assets breakdown with GBP21.6bn of customer loans, mainly mortgages

* Mortgage enhancement: mortgage portfolio transfer from Lloyds to TSB to enhance TSB’s profit for a period of c.5 years (starting 28th February 2014).
TSB Liabilities Breakdown

Balance Sheet (GBP bn, Dec-2014)

Customer Deposits Breakdown (in %)

Capital ratios (GBP M)

Balanced financing structure, with a franchise LTD of 77%

Source: TSB 2014 Annual Report. \(^1\) Assuming RWA under IRB approach.
Sabadell’s experience and leadership in customer service and in SMEs can accelerate TSB’s strategic development

- Potential revenue benefits by accelerating the development of TSB’s franchise
- Sabadell will provide TSB with a relevant commercial support in order to enhance – at an adequate pace – its product catalogue, taking advantage of Sabadell’s product range
- Sabadell’s high market share in SME lending in Spain, coupled with its international expertise, provides a sound value added tool to develop efficient SME services in the UK market

Source: STIGA, EQUOS (Objective Quality Analysis in Banking Networks, 4Q2014).

Sabadell’s level of quality of service vs sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Sabadell</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>7.54</td>
<td>6.95</td>
</tr>
<tr>
<td>2008</td>
<td>7.21</td>
<td>6.77</td>
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<tr>
<td>2009</td>
<td>7.32</td>
<td>6.61</td>
</tr>
<tr>
<td>2010</td>
<td>7.20</td>
<td>6.11</td>
</tr>
<tr>
<td>2011</td>
<td>7.24</td>
<td>6.06</td>
</tr>
<tr>
<td>2012</td>
<td>6.90</td>
<td>6.01</td>
</tr>
<tr>
<td>2013</td>
<td>6.89</td>
<td>6.03</td>
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<tr>
<td>1Q14</td>
<td>6.90</td>
<td>6.23</td>
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<td>2Q14</td>
<td>7.03</td>
<td>6.28</td>
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<tr>
<td>3Q14</td>
<td>7.21</td>
<td>6.15</td>
</tr>
<tr>
<td>4Q14</td>
<td>7.42</td>
<td>6.48</td>
</tr>
</tbody>
</table>

Sabadell penetration in the corporate and SME segments

- 25.3% Sabadell is the preferred banking partner of 25.3% of the clients
- 70% 70% of the large companies are Sabadell’s clients
- 40% 40% of the SMEs are Sabadell’s clients

Source: “Comportamiento financiero de las empresas en España-2012”, based on answers from 876 Spanish companies, with an annual turnover of €6-100M.
TSB – Fully seizing the commercial opportunity with the support of Sabadell

Key pillars of TSB’s growth strategy

- **Growing its PCA market share**
  - Closing the gap between the current PCA market share of 4.3% and the 6.1% branch market share
  - Opportunities to increase TSB’s proportion of PCA market flow and consequently grow the asset side of TSB balance sheet through secured and unsecured lending

- **Re-entering in the mortgage intermediary sales market**
  - Access the significant portion of the UK retail mortgage market that is sold through intermediaries (in 2013, 54% of gross new mortgage lending)
  - In the medium term, TSB aims to grow gross new lending through the intermediary channel to c.GBP4bn per year

- **Deploying digital distribution banking capability**
  - Reduce costs associated with servicing in comparison with other distribution channels
  - Create more new customer relationships
  - Utilise the opportunities that exist to meet more customer needs

Sabadell’s expertise in customer service and digital services both in individuals and companies in a highly efficient domestic market is a value enhancing proposition for TSB
1. Transaction and strategic rationale
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TSB Financials highlights vs Sabadell

Exchange rate EURGBP: 0.7789 (31-Dec-14) for Balance sheet data and 0.8060 (2014 average) for P&L data.

1 TSB net profit excluding mortgage enhancement and extraordinary items (€53M).
2 Loan to deposit ratio excludes provisions and third party loans.
3 Data as of March 2014.


<table>
<thead>
<tr>
<th>Balance Sheet (€ in million)</th>
<th>TSB</th>
<th>Sabadell</th>
<th>TSB as a % of Sabadell</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec-14</td>
<td>Dec-14</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>34,884</td>
<td>163,346</td>
<td>21%</td>
</tr>
<tr>
<td>Gross loans to customers</td>
<td>27,895</td>
<td>121,141</td>
<td>23%</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>31,615</td>
<td>98,208</td>
<td>32%</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Profit &amp; Loss Account (€ in million)</th>
<th>2014</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>Net interest income</td>
<td>941</td>
<td>2,260</td>
</tr>
<tr>
<td>Other income</td>
<td>156</td>
<td>2,541</td>
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<tr>
<td>Total income</td>
<td>1,097</td>
<td>4,801</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>-844</td>
<td>-2,051</td>
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<tr>
<td>Operating margin</td>
<td>253</td>
<td>2,749</td>
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<tr>
<td>Net profit</td>
<td>167</td>
<td>372</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratios (in %)</th>
<th>Dec-14</th>
<th>Dec-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPL ratio</td>
<td>0.9%</td>
<td>12.17%</td>
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<tr>
<td>Coverage ratio</td>
<td>42.0%</td>
<td>50.3%</td>
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<tr>
<td>CET1 fully loaded</td>
<td>19.7%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Cost-to-income</td>
<td>75%</td>
<td>53%</td>
</tr>
<tr>
<td>Loan-to-deposits</td>
<td>88%</td>
<td>104%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other</th>
<th>Dec-14</th>
<th>Dec-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td>631</td>
<td>2,320</td>
</tr>
<tr>
<td>Employees</td>
<td>8,638</td>
<td>17,529</td>
</tr>
</tbody>
</table>
Transaction is earnings enhancing in the medium term

- Substantial pre-tax savings of GBP160M from IT optimisation in the third full year after completion
- Additional revenue benefits expected by accelerating the development of TSB’s franchise
- Sabadell does not have any current plans to significantly change the branch network or headcount at TSB in the short term after the completion of the Transaction, however limited cost reduction may be undertaken as a consequence of TSB no longer being a public company
- CET1 capital neutral post rights offering and earnings enhancing in the medium term
Effective substitution of the IT platform, leveraging on Sabadell capacity

- “Mortgage Intermediary Platform” available
- Deadline for Lloyds’s full divestment
  The two year non-competing period begins (Lloyds cannot approach TSB’s customer base)
- Transition from the TSA to the LTSA
  IT/Ops costs would increase resulting from the transition from the TSA to the LTSA (Long Term Services Agreement)

**TSA (Transactional Services Agreement) and LTSA highlights**
- Core service charge for TSB related to an agreed volume of services for the period starting in 2014 and up to 2017 → TSA core service charge of GBP95M in 2014E and LTSA expected to be GBP204M in 2017E
- Additional amounts are payable for increases in service volumes over and above those set by reference to TSB’s agreed 2014 to 2017 business plan

Note: Transitional Services Agreement (“TSA”) and Long Term Services Agreement (“LTSA”) (such agreements governing the provision of a number of services by Lloyds to TSB).
1. Extendable to 30th June 2016 or 31st December 2016 in the event of Disorderly Markets.
3. Adjusted according to inflation (~3%) → TSA: 2014E (GBP95M), 2015E (GBP98M) and 2016E (GBP100M) and LTSA 2017E (GBP204M).
Update on business evolution

Banco Sabadell has communicated the following financial information regarding its results for the first two months of 2015 (non-audited numbers)\(^1\):

- Main line items are following the trends observed in recent quarters
- NII continues to grow compared to previous quarters, with the main uplift coming from lower cost of customer funds and wholesale funding
- Commission income is maintained at similar levels to H2 2014 on the back of positive performance in the assets management business
- High level of gains from financial operations during the first two months of the year, related to the management of the ALCO portfolio
- Growth in administrative costs is contained
- As in 2014, the extraordinary gains have been neutralised by additional impairments resulting in increased NPL coverage ratios
- Loan volumes are kept stable with a positive outlook on loans to SMEs and companies. Total NPLs are below the level observed at the end of 2014
- Banco Sabadell confirms that the Group is on track to meet the targets set out in the business plan Triple 2014-2016, reiterating €1bn of net profit in 2016

\(^1\) The main financial indicators available at the end of February 2015 do not represent a comprehensive description of the consolidated financial accounts.
1. Transaction and strategic rationale

2. TSB franchise overview

3. Financial considerations

4. Additional data
## UK market positioning

### Branches

<table>
<thead>
<tr>
<th>Bank</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lloyds Banking Group</td>
<td>2,321</td>
</tr>
<tr>
<td>RBS</td>
<td>1,696</td>
</tr>
<tr>
<td>Barclays</td>
<td>1,482</td>
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<tr>
<td>HSBC</td>
<td>1,141</td>
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<td>Santander</td>
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<td>Nationwide</td>
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<tr>
<td>TSB</td>
<td>631</td>
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<tr>
<td>Clydesdale Bank</td>
<td>314</td>
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<tr>
<td>Yorkshire Bank</td>
<td>294</td>
</tr>
<tr>
<td>The co-operative bank</td>
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<tr>
<td>Handelsbanken</td>
<td>176</td>
</tr>
<tr>
<td>NRAM</td>
<td>74</td>
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</table>

### Residential

<table>
<thead>
<tr>
<th>Bank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lloyds Banking Group</td>
<td>24%</td>
</tr>
<tr>
<td>RBS</td>
<td>12%</td>
</tr>
<tr>
<td>Barclays</td>
<td>11%</td>
</tr>
<tr>
<td>HSBC</td>
<td>10%</td>
</tr>
<tr>
<td>Santander</td>
<td>8%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>6%</td>
</tr>
<tr>
<td>TSB</td>
<td>2%</td>
</tr>
<tr>
<td>Clydesdale Bank</td>
<td>2%</td>
</tr>
<tr>
<td>Yorkshire Bank</td>
<td>2%</td>
</tr>
<tr>
<td>The co-operative bank</td>
<td>2%</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>2%</td>
</tr>
<tr>
<td>NRAM</td>
<td>2%</td>
</tr>
</tbody>
</table>

### Deposits

<table>
<thead>
<tr>
<th>Bank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lloyds Banking Group</td>
<td>21%</td>
</tr>
<tr>
<td>RBS</td>
<td>12%</td>
</tr>
<tr>
<td>Barclays</td>
<td>11%</td>
</tr>
<tr>
<td>HSBC</td>
<td>10%</td>
</tr>
<tr>
<td>Santander</td>
<td>9%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>5%</td>
</tr>
<tr>
<td>TSB</td>
<td>4%</td>
</tr>
<tr>
<td>Clydesdale Bank</td>
<td>2%</td>
</tr>
<tr>
<td>Yorkshire Bank</td>
<td>2%</td>
</tr>
<tr>
<td>The co-operative bank</td>
<td>2%</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>2%</td>
</tr>
<tr>
<td>NRAM</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Unsecured

<table>
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<tr>
<th>Bank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays</td>
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</tr>
<tr>
<td>RBS</td>
<td>12%</td>
</tr>
<tr>
<td>HSBC</td>
<td>11%</td>
</tr>
<tr>
<td>Santander</td>
<td>9%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>5%</td>
</tr>
<tr>
<td>TSB</td>
<td>4%</td>
</tr>
<tr>
<td>Clydesdale Bank</td>
<td>2%</td>
</tr>
<tr>
<td>Yorkshire Bank</td>
<td>2%</td>
</tr>
<tr>
<td>The co-operative bank</td>
<td>2%</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>2%</td>
</tr>
<tr>
<td>NRAM</td>
<td>1%</td>
</tr>
</tbody>
</table>

### SME

<table>
<thead>
<tr>
<th>Bank</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays</td>
<td>26%</td>
</tr>
<tr>
<td>RBS</td>
<td>26%</td>
</tr>
<tr>
<td>HSBC</td>
<td>19%</td>
</tr>
<tr>
<td>Santander</td>
<td>18%</td>
</tr>
<tr>
<td>Nationwide</td>
<td>4%</td>
</tr>
<tr>
<td>TSB</td>
<td>4%</td>
</tr>
<tr>
<td>Clydesdale Bank</td>
<td>2%</td>
</tr>
<tr>
<td>Yorkshire Bank</td>
<td>2%</td>
</tr>
<tr>
<td>The co-operative bank</td>
<td>2%</td>
</tr>
<tr>
<td>Handelsbanken</td>
<td>2%</td>
</tr>
<tr>
<td>NRAM</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Source:**
1. Branches data sourced from SNL Financial as of Mar-2015 for Lloyds (UK branches exc. TSB), RBS (UK branches exc. Williams & Glyn), Barclays (UK branches) and HSBC (UK branches), Santander UK, Nationwide, Clydesdale Bank, Yorkshire, Co-operative Bank and Virgin Money; sourced from company information as of Dec-2014 for Handelsbanken UK; sourced from press releases for Williams & Glyn.
2. Residential, unsecured lending and deposits market shares as of 2013 sourced from Deutsche Bank Research Report “UK Retail Banking 2014”.
3. SMEs market share as of Q1 2013 sourced from Competitions & Market Authority (CMA). In England and Wales.
4. Assumed to be the equivalent proportion of RBS’s unsecured lending as mortgage portfolios.
Historical financial profile
Evolution of large UK lenders

Source: SNL Financial, Company filings.

¹ Major lenders include Lloyds, RBS, Barclays, Nationwide and Santander UK. RBS excluded from 2014 and 2013 CoR average calculations.