PROSPECTUS DATED 8 OCTOBER 2014

TSB BANKING GROUP PLC

(*Incorporated in England with limited liability, registered number 08871766*)

£385,000,000

Fixed/Floating Rate Reset Callable Subordinated Tier 2 Notes due May 2026

Issue Price: 99.493 per cent.

The £385,000,000 fixed/floating rate reset callable subordinated Tier 2 notes due May 2026 (the **"Notes"**) were issued on 1 May 2014 (the **"Issue Date"**) by TSB Banking Group plc (the **"Issuer"**).

Application has been made to the Financial Conduct Authority (**"FCA"**) in its capacity as competent authority (the **"UK Listing Authority"**) under the Financial Services and Markets Act 2000 (the **"FSMA"**) for the Notes to be admitted to listing on the Official List of the UK Listing Authority (the **"Official List"**) and to the London Stock Exchange plc (the **"London Stock Exchange"**) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the **"Market"**). The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on Markets in Financial Instruments.

The Notes have been issued in registered form and are initially represented by a registered global certificate (the **"Global Certificate"**) which has been deposited with a depositary common to both Euroclear Bank S.A./N.V., (**"Euroclear"**) and Clearstream Banking, *société anonyme* (**"Clearstream, Luxembourg"**). The Global Certificate will be exchangeable for registered certificates (each a **"Certificate"**) in certain circumstances as further described in "*Summary of Provisions relating to the Notes While in Global Form*".

Interest on the Notes will be payable (i) semi-annually in arrear in respect of each Interest Period (as defined in the "*Terms and Conditions of the Notes*" (the **"Conditions"**)) commencing prior to 6 May 2021 (the **"Reset Date"**) at a rate of 5.750 per cent. per annum and (ii) quarterly in arrear in respect of each Interest Period commencing on or following the Reset Date at a rate of interest per annum determined on the relevant Interest Determination Date (as defined in the Conditions) to be equal to the 3 month GBP LIBOR rate plus 3.43 per cent. For further information, see Condition 5 (*Interest Payments*).

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed on the Interest Payment Date (as defined below) falling on or nearest to 6 May 2026 (the **"Maturity Date"**) at their principal amount, together with any accrued but unpaid interest up to (but excluding) the Maturity Date. The Notes may be redeemed, in whole but not in part, at the option of the Issuer on the Reset Date and each subsequent Interest Payment Date thereafter, subject if so required at the relevant time to the Issuer giving prior written notice and receiving permission therefor from the United Kingdom Prudential Regulation Authority (**"PRA"**) or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Issuer (the **"Relevant Regulator"**). In addition, upon the occurrence of a Tax Event (as defined in the Conditions) or Capital Disqualification Event (as defined in the Conditions) the Notes may be redeemed, substituted or varied in whole but not in part, at the option of the Issuer in accordance with Condition 6 (*Redemption, Substitution, Variation and Purchase*). The Notes may also be purchased by the Issuer, subject if so required at the relevant time to the Issuer giving prior written notice and receiving permission therefor from the Relevant Regulator, in any manner and at any price. For further information, see Condition 6 (*Redemption, Substitution, Variation and Purchase*).

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU) (the "Prospectus Directive") and relevant implementing measures in the United Kingdom.

This Prospectus has been prepared for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiary undertakings taken as a whole ("TSB" or the "TSB Group") and the Notes, which according to the particular nature of the Issuer, the TSB Group and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (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.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by or on behalf of the Issuer.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer that any recipient of this Prospectus should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs of, and its own appraisal of the creditworthiness of, the Issuer.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances constitute a representation or create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the affairs or condition (financial or otherwise) of the Issuer since the date of this Prospectus or that the information contained in this Prospectus is correct as at any time subsequent to its date.

In making an investment decision, each investor must rely on its own examination, analysis and enquiry of the Issuer and the Conditions including the merits and risks involved.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, or an invitation by or on behalf of the Issuer to subscribe or purchase any Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or under any relevant securities laws of any state or other jurisdiction of the United States. The Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable U.S. state securities laws.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) **have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;**

(ii) **have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;**

(iii) understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets in which they participate; and

(iv) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Any individual intending to invest in any investment described in this Prospectus should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.

All references herein to "sterling", "pounds" and "£" are to the currency of the United Kingdom and all references herein to "euro" and "€" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 1.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents, which have been previously published or are published simultaneously with this Prospectus and have been filed with the FCA. The following documents shall be incorporated in, and form part of, this Prospectus:

(a) the unaudited condensed consolidated interim financial statements of the Issuer for the six months ended 30 June 2014 (the **"2014 Interim Financial Statements"**), save for the paragraph under the heading "Outlook" on page 5 of the 2014 Interim Financial Statements; and

(b) (i) the historical financial information of TSB Bank plc (**"TSB Bank"**) for the years ended 31 December 2013, 2012 and 2011 (the **"Historical Financial Information"**) and the accountant's report thereon (pages 176 to 221 (inclusive) of the TSB Price Range Prospectus dated 9 June 2014 (the **"TSB Price Range Prospectus"**)), and (ii) note 10 to the interim financial information of TSB Bank for the 3 months ended 31 March 2014 (pages 228 to 229 (inclusive) of the TSB Price Range Prospectus).

Any documents or information that are incorporated by reference into the documents listed above do not form part of this Prospectus. Any information contained in any of the documents specified above which is not expressly incorporated by reference in this Prospectus does not form part of this Prospectus and is either not relevant to investors or is covered elsewhere in this Prospectus. Any information contained in any website referred to in any of the documents specified above does not form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html.

PRESENTATION OF FINANCIAL INFORMATION INCORPORATED BY REFERENCE

TSB has not comprised a separate legal entity or group of entities for the years ended 31 December 2013, 2012 and 2011. The Historical Financial Information is therefore prepared on a basis that combines the results, assets and liabilities of the TSB Bank and its subsidiaries taken as a whole (the **"TSB Bank Group"**) in accordance with International Financial Reporting Standards as adopted by the European Union, the Companies Act 2006 that applies to companies reporting under IFRS and IFRIC interpretations (together **"IFRS"**) and certain accounting conventions commonly used for the preparation of carve out historical financial information. Note 2 to the Historical Financial Information sets out the basis of preparation in full.

The key stages in the evolution of the TSB business, including its separation from Lloyds Banking Group plc (together with its subsidiaries and subsidiary undertakings, **"Lloyds Banking Group"**), have impacted the historical financial performance of the business. As TSB Bank was highly integrated within the existing Lloyds Banking Group business and did not operate as a standalone entity for the substantial majority of the periods covered by the Historical Financial Information, there are a number of items in the Historical Financial Information that are not reflective of TSB's performance as a completely stand-alone business. The 2014 Interim Financial Statements are (and all periods thereafter will be) presented under IFRS for the statutory TSB Group, incorporating the statutory results of TSB Bank plc. As such, there are a number of differences between the financial information reported in the Historical Financial Information and that recorded in the TSB Bank plc statutory financial statements. A reconciliation between the income statement prepared for the Historical Financial Information and the income statement prepared for the statutory results of TSB Bank plc for the 3 months ended 31 March 2014 is provided in note 10 thereto (which is incorporated by reference herein). There are no further differences arising in the period from 1 April 2014 to 30 June 2014.

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RISK FACTORS

TSB believes that the following factors may affect its ability to fulfil its obligations under the Notes. If any of the following risks actually materialise, the business, financial condition and results of operations of TSB and the Issuer's ability to fulfil its obligations under the Notes, could be materially and adversely affected. The following sets out all of the principal risks which TSB believes are material to an investment in the Notes. However, further risks which are not presently known to TSB at the date of this Prospectus, or that TSB currently deems immaterial, may also have an effect on TSB’s business. All of these risk factors are contingencies which may or may not occur, and TSB is not in a position to express a view on the likelihood of any such contingency occurring.

Prospective investors should read the detailed information set out elsewhere in this Prospectus prior to making any investment decision.

Unless otherwise defined herein, terms used in this section shall have the same meaning as in the Conditions.

RISKS RELATING TO THE MACROECONOMIC ENVIRONMENT IN WHICH TSB OPERATES

TSB is subject to inherent risks arising from general macro-economic conditions in the UK, the Eurozone and globally

TSB’s business is subject to inherent risks arising from general macro-economic conditions in the UK, the Eurozone and the state of the global financial markets both generally and as they specifically affect financial institutions. During the global financial crisis that started in mid-2008, the UK economy experienced a significant degree of turbulence and periods of recession, adversely affecting, among other things, the state of the housing market, market interest rates, levels of unemployment, the cost and availability of credit and the liquidity of the financial markets.

While economic indicators in the UK have been improving recently, the outlook for the UK economy remains somewhat uncertain, with some forecasts predicting the fragile recovery to continue as such, with modest levels of GDP growth and continued low interest rates over the near to medium term. As TSB’s customer revenue is derived almost entirely from customers based in the UK, TSB is particularly exposed to the condition of the UK economy, including house prices, interest rates, levels of unemployment and consequential fluctuations in consumers’ disposable income. If these economic indicators and UK economic conditions weaken, or if financial markets exhibit uncertainty and/or volatility, TSB’s impairment losses may increase and its ability to grow its business could be materially adversely impacted.

In addition, a deterioration in economic conditions in the Eurozone, including a return to macro-economic or financial market instability, may pose a risk to TSB’s business, despite the fact that TSB has no direct financial exposure to the Eurozone. Further, in recent years, the UK financial markets have been at times negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe. These impacts were felt in the UK economy generally and by UK financial institutions in particular and have placed strains on funding markets at times when many financial institutions had material ongoing funding needs. While TSB is not currently heavily reliant on the Eurozone markets, market volatility has an adverse impact on consumer confidence, spending and demand for credit, which could have an adverse impact on TSB’s business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB faces risks related to volatility in UK house prices

The value of TSB’s residential mortgage portfolio is influenced by UK house prices. A significant portion of TSB’s revenue is derived from interest and fees paid on its mortgage portfolio. The interest includes the economic benefit of a portfolio of £3.1 billion of residential mortgages (the **"Additional Mortgages"**) as at

30 June 2014, beneficial title to which was transferred by the Bank of Scotland plc (**"Bank of Scotland")** (the transferring entity in Lloyds Banking Group (as defined below)) to TSB Bank with effect from 28 February 2014 (the **"Mortgage Enhancement"** and TSB's business excluding the Mortgage Enhancement, the **"TSB Franchise"**). A significant decline in house prices in the UK would lead to a reduction in the recovery value of TSB’s assets in the event of a customer default, and could lead to higher impairment charges and lower profitability. Higher impairment provisions could reduce TSB’s capital and its ability to engage in lending and other income-generating activities. As a result, a decline in house prices could have a material adverse effect on TSB’s business and potentially on its ability to implement its strategy. A significant increase in house prices over a short period of time could also have a negative impact on TSB by reducing customer affordability, which could lead to higher impairments or, if it resulted in a decrease in the number of customers that can afford a house, a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting TSB’s ability to grow its mortgage portfolio.

Volatility in the UK housing market occurring for these, or other reasons could have an adverse impact on TSB’s business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB faces risks associated with interest rate levels and volatility

Interest rates, which are impacted by factors outside of TSB’s control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect TSB’s results, profitability and consequential return on capital in three principal areas: cost and availability of funding, margins and revenues and impairment levels.

First, interest rates affect the cost and availability of the principal sources of TSB’s funding, which is largely provided by customer deposits. A sustained low interest rate environment keeps TSB’s costs of funding low by reducing the interest payable on customer deposits, but also reduces incentives for consumers to save and, therefore, constrains TSB’s ability to earn revenue through the interest rates it receives by lending these funds to customers.

Secondly, interest rates affect TSB’s net interest margin and revenue. The low interest rate environment seen in the UK since early 2009 has put some pressure on deposit net interest margins throughout the industry. Consequently, a sustained period of low interest rates can result in smaller margins realised between the rate TSB pays on customer deposits and that received on its loans and the structural hedges that TSB enters into with respect to its non-dated, rate insensitive liabilities, reducing TSB’s revenue and overall net interest margin.

Thirdly, interest rates impact TSB’s mortgage impairment levels and customer affordability, as well as its unsecured financial products. A rise in interest rates, without sufficient improvement in customer earnings or employment levels, could, for example, lead to an increase in default rates among customers with variable rate mortgages who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for TSB. A high interest rate environment also reduces demand for mortgages and unsecured financial products generally, as individuals are less likely or less able to borrow when interest rates are high, thereby reducing TSB’s revenue.

Given current market conditions, TSB expects that any interest rate volatility could pose challenges. If TSB is unable to manage its exposure to interest rate volatility, whether through hedging, product pricing and maintenance of borrower credit quality or other means, its business, financial condition and results of operations may be adversely affected. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB is exposed to risks relating to high levels of unemployment

As a retail bank, TSB's business performance is impacted by the economic status and wellbeing of its customers, a principal driver of which is overall employment levels. Although unemployment in the UK has fallen recently, it remains relatively high by historical standards. Furthermore, the recent shift in the UK workforce towards part-time, less secure employment adds to the risks faced by TSB from the labour market. Higher levels of unemployment have historically resulted, for example, in a decrease in new mortgage borrowing, lower deposit levels and reduced or deferred levels of spending, which adversely impact fees and commissions received on credit and debit card transactions and demand for unsecured lending. Higher unemployment rates and the resultant decrease in customer income can also have a negative impact on TSB's results, including through an increase in arrears, forbearance, impairment provisions and defaults. Consequently, sustained high levels of unemployment could have a material adverse impact on TSB's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligation under the Notes.

RISKS RELATING TO THE OPERATION OF TSB'S BUSINESS

TSB faces risks associated with its operations' compliance with a wide range of laws and regulations

TSB's operations must comply with numerous laws and regulations and, consequently, it faces risks, including but not limited to:

- the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians may continue; the FCA in particular continues to focus on retail conduct risk issues, as well as conduct of business activities through its supervision activity;

- the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to an employee of TSB may result in disciplinary action or requirements to amend sales processes, withdraw products or provide restitution to affected customers, all of which may require additional provisions;

- certain aspects of TSB's business may be determined by the relevant authorities, the Financial Ombudsman's Service (**"FOS"**) or the courts not to have been conducted in accordance with applicable local or, potentially, overseas laws or regulations or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;

- a potential failure of processes, systems or security may expose TSB to heightened financial crime and/or fraud risk;

- contractual obligations may either not be enforceable as intended or may be enforced against TSB in an adverse way;

- the intellectual property of TSB (including trade marks) may not be adequately protected or enforceable, and the conduct of the TSB business may infringe the intellectual property of third parties;

- TSB may be liable for damages to third parties harmed by the conduct of its business; and

- regulatory proceedings and private litigation may arise out of regulatory investigations, enforcement actions or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions.

Regulatory actions pose a number of risks to TSB, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, TSB may be subject to other penalties and injunctive relief, civil or private litigation arising out of a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions on TSB’s business. All of these issues could have a negative effect on TSB’s reputation and the confidence of its customers in TSB, as well as taking a significant amount of management time and resources away from the implementation of TSB’s strategy. While certain economic protection against losses arising out of historical conduct issues is provided by the Conduct Indemnity (as defined below) given to TSB by Lloyds Bank plc (**"Lloyds Bank"**) in the Separation Agreement (as defined below), this indemnity may not cover all impacts of such historical conduct issues.

TSB may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when TSB believes that it has no liability or when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, TSB may, for similar reasons, reimburse counterparties for their losses even in situations where TSB does not believe that it is legally compelled to do so. Failure to manage these risks adequately could materially affect TSB, both financially and in terms of its reputation.

Any of these risks, should they materialise, could have an adverse impact on TSB’s business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB faces risks associated with the implementation of its business strategy and with the growth rates targeted in its strategy

TSB is a challenger bank in the UK financial services market and faces risks associated with the implementation of its strategy (See "*Description of TSB – Strategy*" for further information). The current TSB business has a relatively limited operating history as a completely separate institution and implementing its strategy requires management to make complex judgments, including anticipating customer needs across a range of financial products, anticipating competitor activity and the likely direction of a number of macro-economic assumptions regarding the UK economy and the retail banking sector. TSB’s ability to implement its strategy successfully is subject to execution risks, including but not limited to those relating to the provision of services by Lloyds Bank under the Transitional Services Agreement (the **"TSA"**) and the Long Term Services Agreement (the **"LTSA"**), management of its cost base and limitations in its management or operational capacity. These risks may be exacerbated by a number of external factors, including a downturn in the UK, European or global economy, increased competition in the retail banking sector and/or significant or unexpected changes in the regulation of the financial services sector in the UK or Europe. With regard to the LTSA, new technology or use of technology could lead to material increases in transaction volumes that may lead to corresponding increases in LTSA charges. Furthermore, the TSB brand as applied to the current standalone business is relatively new and there can be no assurance that TSB will be successful in further developing its brand and leveraging it into market share growth over more established competitors. Any circumstances that cause real or perceived damage to the TSB brand would have a material adverse impact on TSB’s business.

If TSB fails to meet its strategic growth objectives, particularly the asset growth targeted through the mortgage intermediary sales and servicing function expected to be re-introduced in TSB in 2015, or as a result of a failure to deliver adequate levels of net customer acquisition or increases in its personal current account (**"PCA"**), unsecured lending and savings deposit base, it risks failing to offset the anticipated increase in service charges arising at the end of the term of the TSA and upon the commencement of the LTSA, and anticipated reduction in revenues from the Mortgage Enhancement with equivalent increases in revenue from other sources. (See “*Material Contracts - Long Term Services Agreement & Transitional Services Agreement charges"* and *"Material Contracts - Mortgage Enhancement Agreements*” for further information).

If TSB is unable to implement its business strategy or meet its strategic growth objectives, its business, financial condition and results of operations could be adversely impacted. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB is exposed to particular risks arising from the potentially contemporaneous occurrence of a number of events and circumstances relating to its cost base, revenues and margins

Starting towards the end of 2016 and continuing into 2017, a number of events with the potential to have a significant impact on the commercial and financial performance of TSB are expected to occur. These events include, but are not limited to:

- the anticipated increase in TSB’s cost base from 1 January 2017, as a result of the transition from the TSA to the LTSA; and

- the reduction in revenues from the Mortgage Enhancement, such revenues not being expected to be significant by 2017, as a result of the expected maturity and yield of the Additional Mortgages.

The Board (as defined below) has planned for the increase in costs resulting from the transition from the TSA to the LTSA and the decrease in revenues from the Mortgage Enhancement to be offset, to some extent, by growth in TSB’s asset book, including through the launch of the mortgage intermediary sales and servicing function and the growth of the PCA franchise, with associated customer needs met.

The Board has also based its plans on only a relatively modest expected increase in interest rates, which would additionally drive increased income. This growth is dependent on the factors set out above and the success of a number of initiatives, which will need to perform as expected in order to offset, to some extent, the anticipated increased costs and reduced revenues in 2017. Any material shortfall in expected returns, or any failure of the general economic recovery with the expected associated increase in interest rates and changes in consumer behaviour to increase at the expected rate or over the expected timescales or any combination thereof could result in a material adverse impact (including trading losses) on TSB’s business, financial condition and results of operations, particularly from the start of 2017. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB is exposed to risks related to the delivery, operation and conduct of its mortgage intermediary sales and servicing capability

A key component of TSB’s growth strategy is the re-introduction to TSB of a mortgage intermediary sales and servicing capability, which is expected to occur in early 2015. This functionality is intended to give TSB the ability that it had previously, but does not currently have, to access the significant portion of the UK retail mortgage market that is sold through intermediaries, optimising TSB’s stable, high quality deposit base and allowing TSB to access the profit pools that are currently available to the industry on these products, even in a low base rate environment. Lloyds Bank has undertaken in the Mortgage Intermediary Platform Build Agreement (as defined below) to construct an IT platform which Lloyds Bank will use to provide certain IT services to TSB that will facilitate communication with mortgage intermediaries and allow TSB to market its products to intermediaries. If this platform is not completed on time or in line with agreed design plans, TSB may not be able to access this crucial market segment to the extent or in the manner intended. Additionally, TSB may fail to develop products that are attractive to intermediaries, to acquire the appropriate headcount to service intermediaries or otherwise fail to develop relationships with intermediaries, whether as a result of pricing, a disconnect with TSB’s brand or otherwise.

Furthermore, TSB may be exposed to many of the risks inherent in dealing with intermediaries. For example, TSB will have limited oversight of the intermediaries’ interactions with prospective customers and, consequently, TSB faces certain risks related to the conduct of the mortgage intermediaries with which it does business. The intermediaries’ incentives may not always align with TSB’s, which could lead to a deterioration in the quality and performance of TSB’s mortgage book. If mortgage intermediaries are found to have violated applicable conduct regulations or standards in the sale of TSB’s mortgage products, TSB’s brand and/or reputation could be harmed as a result. Any of these factors could have a negative impact on TSB’s ability to meet its strategic objectives for its asset base and, consequently, its business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

The TSB Franchise business is subject to risks relating to the cost and availability of liquidity and funding

Liquidity and funding is a key area of focus for the TSB Franchise business and the UK financial services industry as a whole. While TSB’s current funding is primarily obtained through PCA and retail savings deposits, its funding needs are likely to increase and/or its funding structure may not continue to be efficient, giving rise, in both cases, to a requirement to raise wholesale funding (although PCA and retail savings deposits are expected to remain the primary source of TSB’s funding for the foreseeable future).

TSB aims to maintain a prudent loan-to-deposit ratio, which means that the majority of its retail lending is funded by retail deposits. Medium-term growth in TSB’s retail lending activities will therefore depend, in part, on the availability of retail deposit funding on acceptable terms, for which there may be increased competition and which is dependent on a variety of factors outside TSB’s control. These factors include general macro-economic conditions and market volatility, the confidence of retail depositors in the economy, the financial services industry and in TSB, as well as the availability and extent of deposit guarantees. Availability of retail deposit funding may also be impacted by increased competition from other deposit takers as a result of their strategies or factors that constrain the volume of liquidity in the market, including, but not limited to, the end of the UK Government’s "Funding for Lending" Scheme. Increases in the cost of retail deposit funding will impact TSB’s margins and affect profit, and a lack of availability of retail deposit funding could have a material adverse effect on TSB’s future growth.

Any loss in consumer confidence in TSB could significantly increase the amount of retail deposit withdrawals in a short space of time. In such a situation, TSB may be more exposed to customer withdrawals as a significant proportion of its liabilities are in instant access products. Should TSB experience an unusually high and/or unforeseen level of withdrawals, TSB may require greater non-retail sources of funding in the future, which it may be unable to access, which could in turn have a material adverse effect on TSB’s financial condition and profitability.

In addition, TSB does not currently hold a credit rating, which, particularly in a period where liquidity may be scarce, could exacerbate its difficulty in obtaining funding from the wholesale or capital markets. There is a risk that TSB’s lack of a credit rating may impact its access to funding markets, which could, in turn, adversely affect TSB’s ability to lend to customers at a level that is consistent with its strategic objectives.

While TSB does not currently rely heavily on wholesale funding, it may need to access wholesale markets where there is a residual funding requirement over and above funds held from, among other sources, PCAs and other customer deposits. If the wholesale funding markets were to be fully or partially closed, it is likely that wholesale funding would prove more difficult to obtain on commercial terms. Under such circumstances, TSB may be unlikely to be able to successfully deliver its growth strategy. Profound curtailments of central bank liquidity to the financial markets in connection with other market stresses, though unlikely, might have a material adverse impact on TSB’s financial position and results of operations depending on TSB’s funding position at that time.

Failure to manage these or any other risks relating to the cost and availability of liquidity and funding may compromise TSB’s ability to deliver its growth strategy and, consequently, have a material adverse impact on TSB’s business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB is exposed to risks related to any political and economic changes following the outcome of the Scottish referendum

Following a 'no' in the Scottish Independence Referendum on 18 September 2014, TSB faces potential risks relating to the uncertainty associated with any resulting political and economic changes. This could have a negative impact on investment in Scotland and on the Scottish economy, which could have an adverse impact on TSB's business, financial condition and results of operations. This could in turn affect the Issuer's ability to fulfill its obligations under the Notes. While TSB is monitoring and assessing the potential impacts on its business of any constitutional changes, the situation remains uncertain.

TSB is subject to regulatory capital requirements

A perceived or actual shortage of capital could have a material adverse effect on TSB's business, which could, in turn, affect TSB's capacity to implement its business strategy, impacting future growth potential.

TSB is expected to be impacted by the implementation of IFRS 9 "Financial Instruments", currently expected in 2018. IFRS 9 is expected to lead to a substantial one-off increase in impairment allowances for certain financial assets and, depending on its interpretation by the relevant regulators, could lead to a substantial negative impact on the capital position of affected institutions, including TSB.

TSB sets its internal target amount of capital by taking account of its own assessment of the risk profile of the business, market expectations and regulatory requirements. If market expectations as to capital levels increase, driven by, for example, the capital levels or targets amongst peer banks or if new regulatory requirements are introduced, then TSB may experience pressure to increase its capital ratios. If it is unable to do so, its business, financial condition and results of operations may be adversely impacted. This in turn could affect the Issuer's ability to fulfill its obligation under the Notes.

TSB faces risks from the highly competitive environment in which it operates

The market for financial services in the UK is highly competitive and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services markets in which TSB operates are mature, such that growth by any bank typically requires winning market share from competitors.

TSB faces competition from established providers of financial services, including banks and building societies, some of which have greater scale and financial resources, broader product offerings and more extensive distribution networks than TSB. TSB also faces potential competition from new entrants to the market.

In addition, the implementation in the second half of 2013 of a seven-day switching guarantee scheme by the Payments Council, which seeks to ensure that a change in current account provider is completed within seven days, may result in customers more readily moving to a competitor, thereby potentially increasing customer attrition rates. Increased competition, whether resulting from the switching service or otherwise, may lead to increased costs associated with acquiring new PCA or savings customers. Furthermore, customers whose accounts have been migrated to TSB as part of the separation from Lloyds Banking Group may retain loyalty to the Lloyds Banking Group brands and choose, at some point, to move their business back to Lloyds Banking Group. Consequently, this switching risk, for the reasons given above, may be more significant for TSB than for its competitors. Under the terms of the Separation Agreement, subject to certain limited exceptions, Lloyds Bank has agreed, amongst other things, to procure that Lloyds Banking Group will not conduct directed and targeted marketing to persons who were customers of TSB as at 9 September 2013 with respect to loans, credit cards, mortgages, PCAs or savings accounts or home insurance products for a period beginning at the date of the Separation Agreement and ending on the date that is two years from the date on which Lloyds Banking Group ceases to hold any beneficial interest in shares of TSB. Once the relevant restrictions expire, however, there is a risk that Lloyds Banking Group may target TSB customers for acquisition given their familiarity with the Lloyds Banking Group brands, or invest in high quality new branches close to TSB branches, thereby potentially increasing customer attrition rates.

Any failure to manage the competitive dynamics to which it is exposed could have a material adverse impact on TSB’s business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB is subject to risks concerning customer and counterparty credit quality

TSB has exposures to many different products, counterparties and obligors whose credit quality can have a significant adverse impact on TSB’s earnings and the value of assets on TSB’s balance sheet. As part of the ordinary course of its operations, TSB estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. TSB may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could adversely affect TSB’s business, financial position and results of operations.

Further, there is a risk that, despite TSB’s belief that it conducts an accurate assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macro-economic disruptions or other external factors. The failure of customers to meet such commitments may result in higher impairment charges or a negative impact on fair value in TSB’s lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments would have a material adverse impact on TSB’s business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

Concentration of credit risk could increase TSB’s potential for significant losses

For the year ended 31 December 2013, substantially all of the TSB Franchise business related to customers in the UK, and in the case of mortgages, particularly in Scotland, London and the South East of England. In the event of a disruption to the credit markets in the UK generally or economic conditions, including interest rates and levels of unemployment in regions within the UK where TSB has significant presence, this concentration of retail credit risk could cause TSB to experience greater losses than its less concentrated competitors.

In addition, TSB faces concentration risks relating to its interest-only mortgage portfolio, which amounts to approximately 45 per cent of TSB’s residential mortgage lending as at 31 March 2014. As these mortgages near maturity, TSB may face greater repayment and asset quality risks than competitors with a lower proportion of interest-only mortgages. TSB is also exposed to concentration risk due to the composition of the Additional Mortgages. The Additional Mortgages primarily comprise lender variable rate mortgages and tracker mortgages. While TSB regularly monitors its credit portfolios to assess potential concentration risk, efforts to divest, diversify or manage TSB’s credit portfolio against concentration risks may not be successful and could result in an adverse impact on its business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB is exposed to operational risks related to systems and processes

TSB’s business is exposed to operational risks related to systems and processes, whether people related or external events, including the risk of fraud and other criminal acts carried out against TSB, including in relation to the banking operations services provided by Lloyds Bank under the TSA and LTSA. TSB’s business is dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services. Any weakness in these systems or processes could have an adverse effect on TSB’s results and on its ability to deliver appropriate customer outcomes during the affected period. In addition, any breach in security of TSB’s systems (or the Lloyds Bank systems that support the services to TSB under the TSA and LTSA), for example from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, result in the disclosure of confidential information and create significant financial and/or legal exposure and the possibility of damage to TSB's reputation and/or brand. While the services that Lloyds Bank will provide to TSB under the TSA and LTSA are supported by mature, proven systems and processes that also support Lloyds Bank's retained businesses, Lloyds Bank has no previous experience of using the systems and processes to provide services of a comparative breadth and scale to a third party financial institution. Moreover, the services, as well as the agreements under which they are provided, are highly complex. As a result, TSB faces the risk that the systems and processes that underpin the TSA and LTSA services may not function in the manner anticipated and necessary to deliver the required outcomes for customers.

TSB's operations must also be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development. TSB has a relatively limited history operating as a separate entity and, consequently, does not have a long track record on which it can assess the performance of its systems and processes or the analysis of those systems' outputs. While TSB does have disaster recovery and business continuity contingency plans in place, the occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems (including those provided pursuant to the TSA and LTSA) could have a material adverse impact on TSB's business. Any such actual or perceived inadequacies, weaknesses or failures in TSB systems or processes could have a material adverse effect on TSB's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligation under the Notes.

TSB is subject to risks associated with its hedging and treasury operations, including potential negative fair value adjustments

TSB faces risks related to its customer-driven hedging operations. TSB engages in hedging activities, for example in relation to interest rate risk, in an attempt to limit the potential adverse effect of interest rate fluctuations on its results of operations. TSB's treasury operation has responsibility for managing the interest rate risk that arises through its customer facing business, management of its liquid asset buffer and investment of free reserves and interest rate insensitive deposit balances. Interest rate hedges for both customer assets and liabilities are calculated using a behavioural model. However, TSB does not hedge all of its risk exposure and cannot guarantee that its hedging strategies will be successful because of factors such as behavioural risk, unforeseen volatility in interest rates or the decreasing credit quality of hedge counterparties in times of market dislocation. If its hedging strategies are not effective, TSB may be required to record further negative fair value adjustments. Material losses from the fair value of financial assets would also have an adverse impact on TSB's capital ratios.

Through its treasury operations, TSB will hold liquid assets portfolios for its own account, exposing TSB to interest rate risk, basis risk and credit spread risk. To the extent that volatile market conditions occur, the fair value of TSB's liquid asset portfolios could fall more than estimated and cause TSB to record mark to market losses. In a distressed economic or market environment, the fair value of certain of TSB's exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then prevailing market conditions, may result in significant negative changes in the fair value of TSB's exposures, which could have a material adverse impact on TSB's business, financial condition and results of operations.

Interest-rate insensitive PCA balances form a significant part of TSB's funding. TSB makes the assumption that these balances will have a maturity in excess of five years and they are currently invested, along with free reserves, in a rolling series of five-year interest rate swaps. TSB believes that the current, relatively low, level of five-year swap interest rates, coupled with the probability of their rising in advance of any increase in the Bank of England base rate, means that these balances are expected in future to generate a higher level of revenue than they do currently. However, if customer behaviour were to change significantly, PCA balances may become more volatile and may no longer be suitable for swaps of the current duration, which could have an adverse impact on the revenue generated by these balances. This could have a material adverse impact on TSB's business, financial condition and results of operations, which could in turn affect the Issuer's ability to fulfill its obligations under the Notes.

The Mortgage Enhancement may not deliver the expected profit pool

The Mortgage Enhancement structure has been designed in order to meet Lloyds Banking Group’s obligations under its State aid commitments, as amended in this respect following the September 2013 recommendations of the Office of Fair Trading (**"OFT"**) in relation to TSB’s competitiveness and financial strength, and has specifically been designed to enhance TSB’s profitability by approximately £220 million in aggregate in the four years from 2014. Lloyds Banking Group is not required to guarantee or underwrite, and has not guaranteed or underwritten, the profit streams contemplated in the Profit Objective (as defined below). The Additional Mortgages are part-funded by TSB through a Retail Mortgage Backed Security Funding Facility entered into by TSB on 20 May 2014 (the **"RMBS Funding Facility"**), which provides TSB flexible and committed funding for a specified period of time, subject to certain term-out events, some of which are based on asset performance.

The Mortgage Enhancement structure has been constructed in a manner that aims to enhance TSB's profitability by approximately £220 million in aggregate for the first four years from (and including) 2014 (the **"Profit Objective"**) through income from the Additional Mortgage portfolio (less the costs associated with the portfolio, including funding through the RMBS Funding Facility). While the Profit Objective is designed to enhance TSB’s short-term profitability and competitiveness, it does not represent a guaranteed stream of income.

The Profit Objective is predicated on certain assumptions. These assumptions relate principally to customer attrition rates in the Additional Mortgage portfolio, customer refinancing rates and new and existing mortgage business margin levels, particularly with respect to the lender variable rate products in the portfolio. Attrition rates, in particular, could be driven by circumstances outside of TSB’s control, including volatility in interest rates and increased competition in the market. Variations in the elements underlying these assumptions could impact the income stream from the Mortgage Enhancement in different ways.

Finally, while the Bank of Scotland has agreed not to treat the Additional Mortgages in a manner that is different to that in which it treats the rest of its mortgage portfolio, it may, from time to time, consistent with the terms of the relevant products, re-price its entire portfolio, which includes the Additional Mortgages (specifically the managed variable rate mortgages, which are subject to a discretionary, managed rate and make up the majority of the Additional Mortgages) or otherwise alter the policies impacting its mortgage book as a whole, which includes the Additional Mortgages. Among other things, this could lead to a decrease in the income that TSB will receive. This could have a material adverse impact on TSB's business, financial condition and results of operations, which could in turn affect the Issuer's ability to fulfill its obligations under the Notes.

The Conduct Indemnity may not cover all potential losses arising as a result of conduct-related issues

TSB benefits from the Conduct Indemnity pursuant to the Separation Agreement in respect of losses arising from pre-Admission (as defined below) acts or omissions relating to customer agreements constituting breaches of applicable laws and regulations. While the Conduct Indemnity is broad and, save in certain limited circumstances, uncapped, there are and will be limits to its coverage. For example, credit losses arising as a result of matters that are covered by the Conduct Indemnity will only be recoverable in certain circumstances.

In addition, while the terms of the Conduct Indemnity provide for a "grace period" after Admission during which, subject to certain conditions, losses arising as a result of the continued use by the TSB Group of practices, policies and procedures inherited from Lloyds Banking Group will be recoverable, the "grace period" has a fixed and limited duration and, after its expiry, any acts and omissions of the TSB Group, including those taken in reliance on such practices, policies and procedures inherited from Lloyds Banking Group, will fall outside the scope of the Conduct Indemnity.

Claims made by TSB pursuant to the Conduct Indemnity may be disputed and there can be no guarantee that the Conduct Indemnity will be found to be applicable in all cases. Claims on the Conduct Indemnity are subject to the continuing solvency of Lloyds Bank. In addition, TSB may be exposed to conduct-related risks and losses that fall outside the scope of the Conduct Indemnity that could have a material adverse impact on its reputation, business, results of operations and financial position, which could in turn affect the Issuer's ability to fulfill its obligations under the Notes.

RISKS RELATING TO THE REGULATORY ENVIRONMENT IN WHICH TSB OPERATES

TSB is subject to substantial and changing prudential regulation

TSB faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. TSB’s borrowing costs and capital requirements could be affected by these prudential regulatory developments, which include (i) the legislative package (**"CRD IV"**) implementing the proposals of the Basel Committee (known as **"Basel III"**) in the European Union and amending and supplementing the existing Capital Requirements Directive (as defined below) and other regulatory developments impacting capital, leverage and liquidity positions and (ii) the Bank Recovery and Resolution Directive (the **"BRRD"**) which establishes an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Any future unfavourable regulatory developments could have a material adverse effect on TSB’s business, results of operations and financial condition. This in turn could affect TSB's ability to fulfill its obligations under the Notes.

CRD IV

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks with effect from 1 January 2014, including: increased minimum levels of capital and additional minimum capital buffers; enhanced quality standards for qualifying capital; increased risk weighting of assets, particularly in relation to market risk and counterparty credit risk; and the introduction of a minimum leverage ratio. Although CRD IV provides for some of these measures to be phased in over a transitional period to 2018, the PRA’s supervisory expectation is for TSB to meet certain of these capital and leverage ratio targets in expedited timeframes.

CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards continue to be developed by the European Banking Authority (the **"EBA"**), changes to the way in which the PRA continues to interpret and apply these requirements to UK banks (including as regards individual model approvals granted under Directive 2009/111/EC (**"CRD II"**) and Directive 2010/76/EU (**"CRD III"**)) or otherwise. Such changes, either individually and/or in aggregate, may lead to further unexpected enhanced requirements in relation to TSB’s capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

A market perception or actual shortage of capital issued by TSB could result in Governmental actions, including requiring TSB to issue additional Common Equity Tier 1 securities, requiring TSB to retain earnings or suspend dividends or issuing a public censure or the imposition of sanctions. This may affect TSB’s capacity to continue its business operations, generate a return on capital, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential. If, TSB is unable to raise this capital, this could affect TSB's ability to fulfill its obligations under the Notes.

Bank Recovery and Resolution Directive

TSB also faces risks from legislation that creates additional bail-in or resolution powers as further described under the heading *"Risk Factors – Noteholders may be required to absorb losses in the event that TSB becomes non-viable."*

TSB is subject to substantial and changing conduct regulations

TSB is exposed to many forms of conduct risk, which may arise in a number of ways. In particular:

- certain aspects of TSB’s business may be determined by its regulators, including the FCA, the PRA, H.M. Treasury, the FOS, the Competition and Markets Authority (the **"CMA"**) or the courts, as not being conducted in accordance with applicable local or, potentially, overseas laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman’s opinion. If TSB fails to comply with any relevant regulations, there is a risk of an adverse impact on its business and reputation due to sanctions, fines or other actions imposed by the regulatory authorities;
- TSB may be subject to allegations of mis-selling of financial products, including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate, may result in disciplinary action (including significant fines) or requirements to amend sales processes, withdraw products or provide restitution to affected customers, any or all of which could result in the incurrence of significant costs, may require provisions to be recorded in TSB’s financial statements and could adversely impact future revenues from affected products; and
- TSB may be liable for damages to third parties harmed by the manner in which TSB has conducted one or more aspects of its business.

In addition, on 8 July 2013, the UK Government accepted the overall conclusions and all of the principal recommendations of a report issued by the Parliamentary Commission on Banking Standards on 19 June 2013, entitled “Changing Banking for Good”. Among other things, the report included proposals for a new banking standards regime governing the conduct of bank staff, the introduction of a criminal offence for reckless misconduct by senior bank staff and steps to improve competition and conduct in the banking sector. Depending on the manner in which these proposals are implemented and enforced, such changes could have a significant impact on TSB’s operations, structure, costs and/or capital requirements.

The FCA has introduced new rules following the publication of its Mortgage Market Review (the **"MMR"**), which require, among other things, an assessment of customer affordability in connection with mortgage lending. The MMR also permits interest-only loans solely where there is a clearly understood and credible strategy for repaying the principal of the loan, evidence of which the lender must obtain before making the loan and must check at least once during the term of the loan, and the cost of the repayment strategy must be included in the affordability assessment. TSB has implemented a plan to fully comply with the MMR. The plan included, among other things, creating a dedicated team to manage issues arising in respect of TSB’s interest-only mortgage holders and assess repayment strategies. TSB expects to incur costs related to its compliance efforts. However, TSB may nevertheless face penalties or other sanctions associated with any non-compliance, including as a result of any potential retrospective review. TSB is also subject to the consumer credit regime under the FSMA, which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its retained secondary legislation (the **"CCA"**) was transferred from the OFT to the FCA in April 2014. Certain pieces of secondary legislation, made pursuant to the CCA, as well as OFT guidance, have been replaced by FCA rules and guidance set out within the FCA Handbook (as defined below), though some pieces of secondary legislation remain. The FCA has greater powers of enforcement than the OFT did previously and is anticipated to take a more proactive and intrusive approach to the regulation of consumer credit. Along with other credit providers that need to comply with the FCA requirements applicable to the provision of consumer credit, TSB may come under a greater degree of scrutiny from the FCA, incur additional compliance costs and be subject to potential penalties and other sanctions for noncompliance.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage and damage to TSB’s brand, which could have a material adverse effect on its business, financial condition, results of operations and relations with customers. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB is subject to the potential impacts of UK and European banking reform initiatives

In recent years, the relevant regulatory authorities in the UK and Europe have proposed (and in some cases have commenced implementation of) dramatic reforms to many aspects of the banking sector, including, among others, institutional structure, resolution procedures and deposit guarantees. While the impact of these regulatory developments remains uncertain (and indeed while some of the specific written proposals are not in final form), TSB expects that the evolution of these and future initiatives could have an impact on its business.

On 14 June 2012, H.M. Treasury issued a white paper entitled "*Banking reform: delivering stability and supporting a sustainable economy*" on how the UK Government intended to implement the measures recommended by Sir John Vickers’ Independent Commission on Banking (the **"ICB"**) final report of 12 September 2011. In October 2012, the UK Government published the draft Financial Services (Banking Reform) Bill (the **"Banking Reform Bill"**) to give effect to the recommendations of the ICB, which was subsequently amended by H.M. Treasury following scrutiny by, and recommendations of, the Parliamentary Commission on Banking Standards. The Banking Reform Bill received Royal Assent as the Financial Services (Banking Reform) Act 2013 (the **"Banking Reform Act"**) on 18 December 2013. The UK Government intends for all relevant secondary legislation to be completed by May 2015 and banks will be expected to have implemented reforms by 2019 at the latest. The Banking Reform Act introduces a number of measures which could impact TSB’s business, including (i) a new bail-in option through an amendment to the Banking Act 2009 (the **"Banking Act"**) for resolving failing banks (in addition to the existing stabilisation options) whereby the Bank of England is given the power, in a resolution scenario, to cancel, reduce or defer the equity liabilities of a bank (including divesting shareholders of a bank of their shares), convert an instrument issued by a bank from one form or class to another (for example, a debt instrument into equity) and/or transfer some or all of the securities of a bank to an appointed bail-in administrator, (ii) powers for the PRA and H.M. Treasury to implement further detailed rules to give effect to the recommendations of the ICB on ring-fencing requirements for the banking sector, (iii) powers for the PRA and the FCA to require non-regulated qualifying parent undertakings of regulated entities to take actions to facilitate resolution and (iv) preferential ranking of insured depositors on a winding-up to rank ahead of all other unsecured creditors.

At the European level, following the report of the Liikanen Group, which was published in October 2012, structural reform regulation covering similar areas to some of those contained in the Banking Reform Act was published by the European Commission. Further, in addition to the bail-in tools discussed above, the BRRD provides, among other things, for resolution authorities to have the power to require institutions and groups to make structural changes to ensure legal and operational separation of "critical functions" from other functions where necessary or to require institutions to limit or cease existing or proposed activities in certain circumstances. It also proposes protection for depositors on insolvency to uninsured elements of deposits, introduces a bank funded resolution fund and introduces additional power to write down or convert capital before an actual resolution event. The BRRD will be implemented in EU Member States by 1 January 2015, except for certain bail-in provisions which are to be implemented by 1 January 2016.

In addition, TSB is responsible for contributing to compensation schemes such as the UK Financial Services Compensation Scheme (the **"FSCS"**) in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Further provisions in respect of these costs are likely to be necessary in the future. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material effect on TSB’s business, results of operations and financial condition.

In Europe, the EU Deposit Guarantee Scheme Directive (**"EU DGSD"**) required EU Member States to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed and a new legislative proposal was published by the European Commission in July 2010. The main changes proposed include a tightened definition of deposits, a requirement that the deposit guarantee scheme repay customers within one week and that banks must be able to provide information at any time. On 15 April 2014, the European Parliament adopted a directive revising the EU DGSD. The EU DGSD came into force on 3 July 2014 following publication in the Official Journal of the European Union (the **"Official Journal"**) and Member States will have one year from this date to implement it into national law. An Impact Assessment conducted by the European Commission indicates that the revisions will impose greater administrative and financial burdens on participating firms. Cost increases will result from increased contributions to the schemes. Until the UK implementing legislation is published, the specific implications for TSB Bank's business arising from the adoption and implementation of the EU DGSD are unclear.

TSB is subject to substantial and increasing industry-wide regulatory and governmental oversight

In addition to the promulgation of new legislation and regulation, the UK Government, the PRA, the FCA and other regulators in the UK, the European Union and overseas have in recent years become substantially more interventionist in their application and monitoring of certain regulations and they may intervene further in relation to areas of industry risk already identified, or in new areas, which could affect TSB.

Areas where regulatory changes could have an adverse effect on TSB include, but are not limited to:

- general changes in Government, central bank or regulatory policy, or changes in regulatory regimes, including changes that apply retroactively, that may influence investor decisions in particular markets in which TSB operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- external bodies applying or interpreting standards or laws differently to those applied by TSB;
- one or more of TSB's regulators intervening to mandate the pricing of certain of TSB's products as a consumer protection measure;
- one or more of TSB's regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service;
- changes in competitive and pricing environments, including changes to interchange fees receivable on debit and credit card transactions;
- further requirements relating to financial reporting, corporate governance, conduct of business and employee remuneration;
- changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing;
- CMA market studies or investigations, FCA market studies on payment systems regulator market studies potentially resulting in a range of measures, including behavioural and/or structural remedies;
- changes in business strategy, particularly impacting the rate of growth of the business; and
- changes to conditions imposed on the sales and servicing of products, which have the effect of making such products unprofitable or unattractive to sell.

TSB, in common with much of the UK and European financial services industry, continues to be the focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations and enhanced regulatory requirements. As a result, regulatory risk will continue to require senior management attention and consume significant levels of business resources. Furthermore, as enhanced supervisory standards are developed and implemented, this more intensive approach and the enhanced regulatory requirements, along with uncertainty and the extent of international regulatory co-ordination, may adversely affect TSB’s business, capital and risk management strategies and/or may result in TSB deciding to modify its legal entity structure, capital and funding structures and business mix or to exit certain business activities altogether or to determine not to expand in areas despite their otherwise attractive potential.

Further, heightened levels of political discussion in the period preceding the next general election, which must occur by May 2015, may lead to increased pressure for further restrictions or additional regulatory oversight of retail banks. The nature of any such changes and the potential effects on TSB’s business is to some extent uncertain.

TSB continually assesses the impacts of legal and regulatory developments which could have an effect on it and will participate in relevant consultation and calibration processes undertaken by the various regulatory and other bodies. Implementation of the foregoing regulatory developments could result in additional costs or limit or restrict the way that TSB conducts business, although uncertainty remains about the details, impact and timing of these reforms. Enhanced supervisory standards and a more intensive approach to supervision and oversight, as well as TSB's failure to comply with enhanced regulatory requirements, may adversely affect TSB's business, capital and risk management strategies. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB must comply with anti-money laundering, anti-bribery and sanctions regulations

TSB is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit TSB, its employees or intermediaries from making improper payments or offers of payment to foreign Governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has become more aggressive, resulting in several landmark fines against UK financial institutions. In addition, TSB cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted. Although TSB believes that its current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that such policies completely prevent situations of money laundering or bribery, including actions by TSB’s employees, for which TSB might be held responsible. Any of such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on TSB’s financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

RISKS RELATING TO TSB'S RELATIONSHIP WITH LLOYDS BANKING GROUP

TSB’s reliance on services arrangements with Lloyds Bank exposes TSB to a range of potential operational and regulatory risks

In connection with TSB’s divestment from the Lloyds Banking Group, TSB Bank has entered into an arm’s-length TSA with Lloyds Bank for the continued provision of a range of banking operations services to TSB on a transitional basis. Following the term of the TSA, which commenced on Admission and will continue in effect through 31 December 2016, a subset of the TSA services will continue to be provided by Lloyds Bank for a further period of up to seven and a half years under the LTSA. Lloyds Bank’s ability to terminate the TSA or LTSA before the end of the term of such agreement is limited. Lloyds Bank may only terminate the TSA or LTSA if required to do so by a regulatory authority or law, or for the non-payment of a sum in excess of £20 million by TSB Bank.

Given that TSB owns and operates limited IT systems and infrastructure for itself, TSB will be heavily reliant on Lloyds Bank under the TSA and LTSA for the provision of a broad range of IT and related services that are critical to supporting the day-to-day operation of TSB's business. In particular, Lloyds Bank will provide hosting and back-up services for TSB's data, including customer data, under the TSA and LTSA. While a number of non-IT business functions and processes, for example those relating to risk and treasury, have been created and implemented for TSB (including the transfer of employees from Lloyds Banking Group companies) as part of its operational separation from Lloyds Banking Group, these business functions and processes will continue to be dependent upon the various non-IT banking operations services (including printing and mail administration services, processing services for credit and debit cards, electronic payments and cheques) under the TSA and LTSA. Although TSB will be heavily reliant on Lloyds Bank in relation to the services provided under the TSA and LTSA, the TSA and LTSA give TSB the ability to effect strategic changes to differentiate TSB's offering in the markets in which it operates (for example, to develop and launch new products and services) and to effect changes appropriate to TSB's business and risk profile in order to comply with new laws and regulations.

The systems and infrastructure that Lloyds Bank will use to provide services to TSB may not operate as expected, may not fulfill their intended purpose or may be damaged or interrupted by unanticipated increases in usage, human error, unauthorised access, natural hazards or disasters or similarly disruptive events. Whilst past issues with the IT systems provided by Lloyds Bank to TSB (including a hardware failure on 26 January 2014 that lasted approximately six hours and affected approximately half of TSB's ATM network and debit card holders) have been resolved and remedied in accordance with agreed procedures, there can be no guarantee that future issues will be similarly resolved and remedied, with a consequent risk to TSB's day-to-day operations. In addition, while Lloyds Bank will be bound by arm's-length contractual obligations under the TSA and LTSA (including with respect to service performance, recovery of service, change management, confidentiality/data security and disaster recovery), Lloyds Bank has no experience of providing services of a comparable breadth and scale to a third party financial institution. Lloyds Bank has invested significantly in a project to enhance its capability to provide banking operations services; however, events impacting Lloyds Bank's ability to honour its contractual commitments to TSB Bank under the TSA or LTSA, such as human errors, events of force majeure, insolvency or other triggers for its recovery or resolution or any failure of the underlying systems or infrastructure used by Lloyds Bank or its subcontractors, could result in significant disruptions (including in the delivery of services to TSB) and costs that adversely affect the overall operational performance, financial performance, financial position or prospects of TSB's business, as well as harm TSB's reputation or brand and/or attract increased regulatory scrutiny.

In recognition of the potential conflict of interest that Lloyds Bank may face in its position as both a significant service provider and competitor to TSB, Lloyds Bank has implemented various technical and organisational measures to manage potential conflicts and associated competition/regulatory risks.

Any interruption to the banking operations services provided under the TSA or LTSA could cause material damage to TSB's business and reputation, and could cause TSB to incur higher administrative and other costs both for the processing of business and the potential remediation of disputes. If Lloyds Bank fails to provide or procure the services envisaged or fails to provide them in a timely manner, under the TSA or LTSA, such failure could have a material adverse effect on TSB's business, prospects, results of operations and financial position. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB is exposed to risks associated with the exit from the LTSA, including with respect to costs and the logistics of transferring its cloned IT infrastructure to an alternate service provider or migrating to an alternative system

The cloning of the IT infrastructure provided as an option under the exit provisions in the TSA and LTSA is inherently risky. Irrespective of the quality of a new service provider or platform and support received from Lloyds Bank, there may be disruptions which could adversely impact TSB's business operations and its customers and could cause TSB to incur higher administrative and other costs both for the processing of business and the potential remediation of disputes. Alternatively, the TSA and LTSA provide for the migration of data and systems to a new banking platform. However, a migration process would inherently be more complex, riskier and more expensive for TSB than an exit approach based on transferring to cloned IT infrastructure and could, in turn, have a material adverse effect on TSB's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB could have difficulty in continuing to operate if Lloyds Banking Group were to experience a severe deterioration in its financial or operating condition

While the financial performance of Lloyds Banking Group does not have a direct impact on the performance of TSB, any catastrophic deterioration in Lloyds Banking Group's business, financial condition or results of operations, such that it required recovery or resolution or other Government intervention, could jeopardise TSB's ability to continue to operate and ultimately meet its regulatory threshold conditions. The provision of services by Lloyds Bank pursuant to the TSA and LTSA is vital to TSB's ability to operate its business. TSB has also entered into a £2.5 billion RMBS Funding Facility with Lloyds Bank. If Lloyds Bank were unable to continue to meet its obligations under the TSA and/or LTSA or any other relevant arrangements, either due to an industry-wide dislocation or to circumstances particular to Lloyds Banking Group, the consequences to TSB would be severe. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB faces potential risks associated with its separation from Lloyds Banking Group

As part of its separation from Lloyds Banking Group, TSB established its own functions and processes in a wide range of areas, including finance, human resources, internal audit, legal, treasury, risk, corporate affairs, product management and purchasing. These functions and processes will in some respects continue to be supported by various services under the TSA and LTSA. While these services and functions are relatively new as standalone functions for TSB, they have been subject to testing and are now implemented into the ordinary operational and reporting processes of TSB. There can, however, be no assurance that these services and functions will continue to operate as intended and there remains a risk that TSB could suffer operational difficulties in due course which, either directly or as a result of the need for further investment in these new services and functions, could have a material adverse effect on TSB's business, financial condition and results of operations. This in turn could affect the Issuer's ability to fulfill its obligations under the Notes.

TSB faces potential risks associated with Lloyds Banking Group remaining a significant shareholder in TSB

As at 7 October 2014, being the latest practicable date prior to this Prospectus, Lloyds Banking Group plc owns, through the Selling Shareholder (as defined below), approximately 50 per cent. of the issued ordinary share capital of the Issuer. The interests of Lloyds Banking Group plc, including its obligation to divest its entire interest in TSB by 31 December 2015 (with this date extendable to 30 June 2016 or 31 December 2016 in the event of disorderly markets), could conflict with those of TSB. While it remains a significant shareholder of the Issuer, Lloyds Banking Group plc will, subject to the terms of the Relationship Agreement (as defined below) which imposes certain restrictions on the ability of Lloyds Banking Group plc and its associates to control or intervene in the management and operation of the Issuer, continue to have the power, among other things, to affect or influence TSB's legal and capital structure and to approve other changes to its operations. The ability of Lloyds Banking Group plc and its associates to exercise voting rights as a shareholder in TSB, which are restricted under the terms of the Relationship Agreement, may also have the effect of delaying, deferring or preventing TSB from effecting certain types of transactions that require approval by Lloyds Banking Group plc, including by special resolution. More generally, the Relationship Agreement will, in part (in accordance with the requirements of the the listing rules produced by the FCA relating to admission to the Official List made under Section 73A(2) of the FSMA (the **"Listing Rules"**) in relation to TSB's independence), regulate the degree of control that Lloyds Banking Group plc and its associates may exercise over the management of TSB.

RISKS RELATING TO THE NOTES

Set out below is a brief description of certain risks relating to the Notes generally:

RISKS RELATED TO THE STRUCTURE OF THE NOTES

Noteholders may be required to absorb losses in the event that TSB becomes non-viable

The European Commission has published the BRRD. The powers granted to supervisory authorities under the BRRD include a "write-down and conversion power" and a "bail-in" power, which would give such authorities the power to write down or write off the claims (potentially including the Notes) of certain unsecured creditors of a failing institution and/or to convert certain debt claims (potentially including the Notes) into another security, including ordinary shares of the surviving group entity, if any. The BRRD as it relates to capital write-down (including the write-down and conversion powers relating to Tier 2 Capital, including the Notes) must be implemented by EU Member States not later than 1 January 2015 with a more general bail-in tool (applicable to a broader range of eligible liabilities (including the Notes more generally)) being required to be implemented not later than 1 January 2016. The BRRD contains safeguards for shareholders and creditors in respect of the application of the "write down and conversion" and "bail-in" powers which aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings.

There remains uncertainty regarding the ultimate nature and scope of these powers and how they would affect TSB and the Notes as at this time, the HMT and PRA are consulting on the implementation of the BRRD in the UK. Accordingly, there can be no assurance that, once it is implemented, the manner in which it is implemented or the taking of any actions by the relevant UK resolution authority currently contemplated in the BRRD would not adversely affect the rights of Noteholders, the price or value of an investment in the Notes and/or the Issuer’s ability to satisfy its obligations under the Notes. The exercise of any bail-in power or any suggestion of such exercise could, therefore, materially adversely affect the value of the Notes and could lead to Noteholders losing some or all of their investment in the Notes.

In addition to the BRRD described above, it is possible that the exercise of the current powers under the Banking Act, which provide for a resolution regime to resolve failing banks in the United Kingdom and give the authorities powers to override events of default or termination rights that might be invoked as a result of the exercise of the resolution powers, could have a material adverse effect on the rights of Noteholders, including through a material adverse effect on the price of the Notes. The Banking Act also gives the Bank of England the power to override, vary or impose contractual obligations between a UK bank, its holding company and its group undertakings for reasonable consideration, in order to enable any transferee or successor bank to operate effectively. There is also power for H.M. Treasury to amend the law (excluding provisions made by or under the Banking Act) for the purpose of enabling it to use the regime powers effectively, potentially with retrospective effect.

In addition, on 18 December 2013, the Banking Reform Act received Royal Assent. The Banking Reform Act includes amendments to the Banking Act to insert a bail-in option among the powers of the relevant UK resolution authority (the **"Bail-In Power"**).

The Bail-In Power is introduced as an additional power available to the relevant UK resolution authority, to enable it to recapitalise a failed institution by allocating losses to its shareholders and unsecured creditors in a manner that ought to respect the hierarchy of claims in an insolvency of a relevant financial institution, consistent with shareholders and creditors of financial institutions not receiving less favourable treatment than they would have done in insolvency. The Bail-In Power includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the bank under resolution and the power to convert a liability from one form to another. The conditions for use of the Bail-In Power are, in summary, that (i) the regulator determines that the bank is failing or likely to fail, (ii) it is not reasonably likely that any other action can be taken to avoid the bank's failure and (iii) the relevant UK resolution authority determines that it is in the public interest to exercise the Bail-In Power.

In announcing the introduction of the Bail-In Power, the UK Government expressed that it was confident that such powers could be introduced without the risk of having to adapt to a radically different regime when the BRRD is implemented. In July 2014, H.M. Treasury published proposals for implementing the BRRD in the UK in a consultation document ('*Transposition of the Bank Recovery and Resolution Directive*') in which it announced that it does not propose to introduce the bail-in provisions of the Banking Reform Act in advance of the introduction of the BRRD. Instead, the provisions will be amended to be consistent with the BRRD and will take effect from 1 January 2015.

The determination that all or part of the principal amount of the Notes will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control. This determination will also be made by the relevant UK resolution authority and there may be many factors, including factors not directly related to the Issuer or the TSB Group, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of a Bail-In Power may occur which would result in a principal write off or conversion to other securities, including equity. Accordingly, trading behaviour in respect of the Notes is not necessarily expected to follow the trading behaviour associated with other types of securities. Potential investors in the Notes should consider the risk that a Noteholder may lose all of its investment, including the principal amount plus any accrued and unpaid interest, if such statutory loss absorption measures are acted upon or that the Notes may be converted into ordinary shares of the Issuer. Noteholders may have limited rights or no rights to challenge any decision to exercise its Bail-In Power or to have that decision reviewed by a judicial or administrative process or otherwise.

The Issuer's obligations under the Notes are subordinated

The Issuer's obligations under the Notes will be unsecured and subordinated and will, in the event of the winding-up of the Issuer, be subordinated, in the manner provided in the Trust Deed, to the claims of all Senior Creditors.

Although the Notes may pay a higher rate of interest than comparable notes which are not subordinated, there is a real risk that an investor in the Notes will lose all or some of his investment should the Issuer become insolvent.

Substitution, Variation or Redemption of the Notes upon the occurrence of a Capital Disqualification Event or Tax Event

Upon the occurrence and continuation of a Capital Disqualification Event or Tax Event (i) the Issuer may, subject to Condition 6(f) (*Substitution or Variation*) and without the need for any consent of the Noteholders, substitute all (but not some only) of the Notes, or vary the terms of such Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities, and/or (ii) the Issuer may at its option but subject to Condition 6(d) (*Redemption Due to Taxation*) or 6(e) (*Redemption for Regulatory Purposes*), as the case may be, and without the need for any consent of the Noteholders, redeem all but not some only of the Notes, together (if applicable) with accrued but unpaid interest up to (but excluding) the date fixed for redemption.

The Notes are obligations of the Issuer only

The Notes are obligations of the Issuer only and are not guaranteed by TSB Bank or by any other entity and accordingly the Noteholders have recourse in respect thereof only to the Issuer.

The Notes are subject to optional redemption by the Issuer

Subject to Condition 6(b) (*Conditions to Redemption, Substitution, Variation and Purchase*), the Issuer may elect to redeem all, but not some only, of the Notes on the First Reset Date or on any Interest Payment Date thereafter at their principal amount, together (if applicable) with accrued but unpaid interest up to (and excluding) the date fixed for redemption.

RISKS RELATED TO THE NOTES GENERALLY

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, agree to any modification of, or waiver or authorisation of any breach or proposed breach of, any of the Conditions as further described in Condition 11(b) (*Modification of the Trust Deed*).

EU Savings Directive

Under European Council Directive 2003/48/EC (the **"EU Savings Directive"**) on the taxation of savings income, each European Union Member State is required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types or entities established in another Member State.

On 24 March 2014 the Council of the European Union adopted an EU Council Directive amending and broadening the scope of the requirements described above. The new requirements, once applied, will cover new types of savings income and expand the range of payments covered by the Directive, in particular to include additional types of income payable on certain securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union. Member States have until 1 January 2016 to adopt national legislation necessary to comply with the Directive and must apply the new requirements from 1 January 2017.

For a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The changes referred to above, when implemented, will broaden the types of payment subject to withholding in those Member States which still operate a withholding system. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment to an individual were to be made or collected through an EU Member State which has opted for a withholding system and an amount of or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive, neither the Issuer nor any Agent (as defined in the Trust Deed) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. However, the Issuer is required to maintain an Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the EU Savings Directive.

Potential U.S. Foreign Account Tax Compliance Act withholding

The foreign account tax compliance act provisions of the Hiring Incentives to Restore Employment Act of 2010 (**"FATCA"**) impose a withholding tax of 30 per cent. (**"FATCA withholding"**) on certain U.S.-source payments and proceeds from the sale of assets that give rise to U.S.-source interest or dividends as well as certain payments by non-U.S. entities to persons that fail to meet certain certification or reporting requirements. Under existing guidance, withholding would be imposed starting on (a) 1 July 2014 in respect of certain U.S.-source payments, (b) 1 January 2017 in respect of proceeds from the sale of assets that give rise to U.S.-source interest or dividends and (c) 1 January 2017, at the earliest, in respect of "foreign passthru payments" (a term which is not yet defined under FATCA). The Issuer and other financial institutions through which payments on the Notes are made may be required to withhold on account of FATCA if (x) an investor does not provide information sufficient for the Issuer or the relevant financial institution to determine whether the investor is subject to FATCA withholding or (y) a "foreign financial institution" (as defined under FATCA) to or through which payments on the Notes are made (including a foreign financial institution that is a beneficial owner of the Notes) is a "non-participating foreign financial institution". No FATCA withholding will be imposed, however, in respect of Notes issued on or before (a) 30 June 2014, or (b) with respect to Notes that can only produce "foreign passthru payments," the date that is six months after the date on which final regulations are issued defining the term "foreign passthru payment" unless, in each case of (a) or (b), the Notes are materially modified after such date.

The application of FATCA to interest, principal or other amounts paid with respect to the Notes and the information reporting obligations of the Issuer and other entities in the payment chain is still developing. In particular, a number of jurisdictions (including the United Kingdom) have entered into, or have announced their intention to enter into, intergovernmental agreements (or similar mutual understandings) with the United States, which modify the way in which FATCA applies in their jurisdictions. The full impact of such agreements (and the laws implementing such agreements in such jurisdictions) on reporting and withholding responsibilities under FATCA is unclear. The Issuer and other entities in the payment chain may be required to report certain information on their U.S. account holders to government authorities in their respective jurisdictions or the United States in order (i) to obtain an exemption from FATCA withholding on payments they receive and/or (ii) to comply with applicable law in their jurisdiction. It is not yet certain how the United States and the jurisdictions which enter into intergovernmental agreements will address withholding on "foreign passthru payments" (which may include payments on the Notes) or if such withholding will be required at all.

In the event that any amount of U.S. withholding tax is required to be deducted from a payment on a Note as a result of FATCA, no additional amounts will be paid by the Bank or any Agent or the Trustee and withheld amounts will be treated as paid for all purposes under the Notes.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE NOTES AND THE NOTEHOLDERS IS SUBJECT TO CHANGE. EACH HOLDER OF NOTES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW FATCA MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

Change of law

The Conditions are based on English law in effect as at the date of issue of the Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Notes.

RISKS RELATED TO THE MARKET GENERALLY

Set out below is a brief description of the principal market risks, including illiquidity risk, credit spread risk and exchange rate risk, relating to the Notes generally:

Absence of prior public markets

The Notes constitute a new issue of securities by the Issuer. Prior to the issue, there will have been no public market for the Notes. Although an application has been made for the Notes to be admitted to trading on the London Stock Exchange, there can be no assurance that an active public market for the Notes will develop and, if such a market were to develop, no person is under any obligation to maintain such a market. The liquidity and the market prices of the Notes can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the TSB Group and other factors that generally influence the market prices of securities.

Liquidity risks

The Notes may not have an established trading market when issued. There can be no assurance of a secondary market for the Notes or the continued liquidity of such market if one develops.

The development or continued liquidity of any secondary market for the Notes will be affected by a number of factors such as the creditworthiness of the Issuer, as well as other factors such as the time remaining to the maturity of the Notes, the outstanding amount of the Notes and the redemption features of the Notes. Such factors also will affect the market value of the Notes.

Investors may not be able to sell Notes readily or at prices that will enable investors to realise their anticipated yield. No investor should purchase Notes unless the investor understands and is able to bear the risk that the Notes may not be readily sellable, that the value of Notes will fluctuate over time and that such fluctuations might be significant.

Exchange rate risk and exchange controls

The Issuer will pay principal and interest on the Notes in pounds sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **"Investor's Currency"**) other than pounds sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of pounds sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to pounds sterling would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the Notes which will be endorsed on each Certificate in definitive form (if issued).

The issue of the £385,000,000 Fixed/Floating Rate Reset Callable Subordinated Tier 2 Notes due May 2026 (the **"Notes"**) of TSB Banking Group plc (the **"Issuer"**) was authorised by a resolution of the Board of Directors of the Issuer passed on 26 March 2014. The Notes are constituted by a trust deed (the **"Trust Deed"**) dated 1 May 2014 between the Issuer and The Law Debenture Trust Corporation p.l.c. (the person or persons for the time being the trustee or trustees under the Trust Deed, the **"Trustee"**) as trustee for the Holders (as defined below) of the Notes. These terms and conditions (the **"Conditions"**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes. Copies of the Trust Deed and of the agency agreement (the **"Agency Agreement"**) dated 1 May 2014 relating to the Notes between the Issuer, Citibank, N.A., London Branch as the initial principal paying agent (the person for the time being the principal paying agent, the **"Principal Paying Agent"**), agent bank (the person for the time being the agent bank, the **"Agent Bank"**), registrar (the person for the time being the registrar, the **"Registrar"**) and transfer agent (the person(s) for the time being the transfer agent(s), the **"Transfer Agent(s)"**) and the Trustee, are available for inspection by prior arrangement during usual business hours at the principal office of the Trustee (presently at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Principal Paying Agent, the Registrar and each of the Transfer Agents. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

1. Form, Denomination and Title

(a) Form and Denomination

The Notes are serially numbered in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The Notes are represented by registered certificates (**"Certificates"**) and, save as provided in Condition 2(*a*) (*Transfer*), each Certificate shall represent the entire holding of Notes by the same Holder.

(b) Title

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **"Register"**). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the Holder.

In these Conditions, **"Noteholder"** or **"Holder"** means the person in whose name a Note is registered.

2. Transfers of Notes

(a) Transfer:

A holding of Notes may, subject to Condition 2(*d*) (*Closed Periods*), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a Holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar or Transfer Agent to any Noteholder upon request.

(b) Delivery of New Certificates:

Each new Certificate to be issued pursuant to Condition 2(*a*) (*Transfer*) shall be available for delivery within three business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the Holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the Holder entitled to the new Certificate to such address as may be so specified, unless such Holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(*b*) (*Delivery of New Certificates*), **"business day"** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) Transfer Free of Charge:

Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) Closed Periods:

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note, (ii) during the period of 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(*c*) (*Issuer's Call Option*), (iii) after the Notes have been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Status

The Notes constitute direct and unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of Holders in respect of, or arising under, their Notes are subordinated as described in Condition 4 (*Subordination*).

4. Subordination

(a) Winding-up

In the event of:

(i) an order being made, or an effective resolution being passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Notes shall thereby become redeemable or repayable in accordance with these Conditions); or

(ii) an administrator of the Issuer being appointed and such administrator giving notice that it intends to declare and distribute a dividend,

the rights and claims of the Holders against the Issuer in respect of, or arising under, each Note and the Trust Deed shall be for (in lieu of any other payment by the Issuer) an amount equal to the principal amount of the relevant Note, together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Note, including any damages awarded for breach of any obligations under the Notes and/or the Trust Deed, provided however that such rights and claims shall be subordinated as provided in this Condition 4(*a*) (*Winding-up*) and in the Trust Deed to the claims of all Senior Creditors but shall rank (a) at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer and (b) in priority to the claims of holders of all Tier 1 Capital of the Issuer and to the claims of holders of all classes of share capital of the Issuer.

The foregoing provisions of this Condition 4(*a*) (*Winding-up*) and the provisions of Condition 8(*e*) (*Extent of Holder's remedy*) apply only to the principal, interest and other amounts arising from or under the Notes and nothing in this Condition 4(*a*) (*Winding-up*) or Condition 8(*e*) (*Extent of Holder's remedy*) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof and in such capacity the Trustee shall rank as an unsubordinated creditor of the Issuer.

(b) Set-off

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Notes or the Trust Deed and each Holder shall, by virtue of his holding of any Note, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

5. Interest Payments

(a) Interest Rate

The Notes bear interest at the applicable Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 5 (*Interest Payments*).

During the Fixed Rate Interest Period, interest shall be payable on the Notes semi-annually in arrear on each Interest Payment Date in equal instalments (except that the first payment of interest to be made on 6 November 2014 will be in respect of the period from (and including) the Issue Date to (but excluding) 6 November 2014) and thereafter interest shall be payable on the Notes quarterly in arrear on each Interest Payment Date, in each case, as provided in this Condition 5 (*Interest Payments*).

The interest payable on the Notes in relation to the long first Interest Period to be paid on 6 November 2014 will amount to £29.54 per Calculation Amount and each subsequent semi-annual interest payment payable on the Notes in relation to any Interest Period falling within the Fixed Rate Interest Period shall amount to £28.75 per Calculation Amount.

Where it is necessary to compute an amount of interest in respect of any Note during the Fixed Rate Interest Period for a period which is less than a complete Interest Period, the relevant day-count fraction shall be determined on the basis of the actual number of days in the relevant period divided by the product of (1) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

Interest shall accrue on the Notes in respect of all Interest Periods (and any other period in respect of which interest may fall to be calculated) commencing on or after the First Reset Date on the basis of a day-count fraction equal to the actual number of days elapsed in the relevant period divided by 365 (or, in the case of an Interest Payment Date falling in a leap year, 366).

(b) Interest Accrual

The Notes will cease to bear interest from (and including) the due date for redemption thereof pursuant to Condition 6(*a*) (*Final Redemption*), (*c*) (*Issuer's Call Option*), (*d*) (*Redemption Due to Taxation*) or (*e*) (*Redemption for Regulatory Purposes*) or the date of substitution thereof pursuant to Condition 6(*f*) (*Substitution or Variation*), as the case may be, unless, upon surrender of the Certificate representing such Note, payment of all amounts due in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue on the Notes, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Interest in respect of any Note shall be calculated per Calculation Amount and shall, save as provided in Condition 5(*a*) (*Interest Rate*) in relation to equal instalments, be equal to the product of the Calculation Amount, the relevant Interest Rate and the day-count fraction as described in Condition 5(*a*) (*Interest Rate*) for the relevant period, rounding the resultant figure to the nearest penny (half a penny being rounded upwards). Where the denomination of a Note is more than the Calculation Amount, the amount of interest payable in respect of such Note, is the aggregate of the amounts (calculated as aforesaid) for each Calculation Amount comprising the denomination of the Note.

(c) Fixed Interest Rate

For the Fixed Rate Interest Period, the Notes bear interest at the rate of 5.750 per cent. per annum (the **"Fixed Interest Rate"**).

(d) Floating Interest Rate

From (and including) the First Reset Date, the Notes will bear interest at a floating rate of interest (the **"Floating Interest Rate"**). The Floating Interest Rate in respect of each Interest Period commencing on or after the First Reset Date will be determined by the Agent Bank on the basis of the following provisions:

(i) On each Interest Determination Date, the Agent Bank will determine the offered rate (expressed as a rate per annum) for 3-month deposits in pounds sterling as at 11 a.m. (London time) on such Interest Determination Date, as displayed on the display designated as page "LIBOR 01" on the Thomson Reuters Monitor Money Rates Service (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Interest Rate for the relevant Interest Period shall be such offered rate as determined by the Agent Bank plus the Margin.

(ii) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the London inter bank market for 3 month deposits in pounds sterling as at 11 a.m. (London time) on the Interest Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Interest Rate for the relevant Interest Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.

(iii) If on any Interest Determination Date to which the provisions of paragraph (ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Interest Rate for the relevant Interest Period shall be the rate which the Agent Bank determines to be the aggregate of the Margin and the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the pounds sterling lending rates which leading banks in London selected by the Agent Bank are quoting, on the relevant Interest Determination Date, to leading banks in London for a period of 3 months, provided that if the applicable Floating

Interest Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the Interest Rate shall be determined by the Agent Bank as at the last preceding Interest Determination Date.

(e) Determination of Floating Interest Rate and Calculation of Floating Interest Amounts

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Floating Interest Rate in respect of the relevant Interest Period and calculate the amount of interest payable in respect of a Calculation Amount on the Interest Payment Date for that Interest Period (the **"Floating Interest Amounts"**). The determination of the applicable Interest Rate and the amount of interest payable per Calculation Amount by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

(f) Publication of Floating Interest Rate and Floating Interest Amounts

The Agent Bank shall cause notice of the Floating Interest Rate determined in accordance with this Condition 5 (*Interest Payments*) in respect of each relevant Interest Period, the Floating Interest Amount and the relevant Interest Payment Date to be given to the Trustee, the Principal Paying Agent, the Registrar, each of the Transfer Agents, any stock exchange on which the Notes are for the time being listed or admitted to trading and, in accordance with Condition 14 (*Notices*), the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The Floating Interest Amount and the date scheduled for payment so notified may subsequently be amended without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions. If the Notes become due and payable under Condition 8(*a*) (*Default*), the accrued interest per Calculation Amount and the Floating Interest Rate payable in respect of the Notes shall nevertheless continue to be calculated as previously by the Agent Bank in accordance with this Condition 5 (*Interest Payments*) but no publication of the Floating Interest Rate or the Floating Interest Amount so calculated need be made unless the Trustee otherwise requires.

(g) Determinations of Agent Bank binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 (*Interest Payments*) by the Agent Bank shall (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Agent Bank, the Trustee, the Principal Paying Agent, the Registrar, the Transfer Agents and all Holders and (in the absence as aforesaid) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

6. Redemption, Substitution, Variation and Purchase

(a) Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date falling on or nearest to 6 May 2026 (the **"Maturity Date"**). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 6 (*Redemption, Substitution, Variation and Purchase*).

(b) Conditions to Redemption, Substitution, Variation and Purchase

Any redemption or purchase of the Notes or substitution or variation of the terms of the Notes, in each case in accordance with Conditions 6(*c*) (*Issuer's Call Option*), (*d*) (*Redemption Due to Taxation*), (*e*) (*Redemption for Regulatory Purposes*), (*f*) (*Substitution or Variation*) or (*g*) (*Purchases*) is subject (if and to the extent required at the relevant time by the Relevant Regulator) to the Issuer giving prior written notice of its intention to redeem, substitute, vary or, as appropriate, purchase the Notes to, and receiving permission therefor from, the Relevant Regulator.

Article 78 of the Capital Requirements Regulation provides that the Relevant Regulator shall, subject as provided in Article 78 and below, grant permission to reduce, repurchase, call or redeem the Notes where either:

(1) on or before the relevant reduction, repurchase, call or redemption date, the Issuer replaces the Notes with instruments qualifying as own funds of equal or higher quality on terms that are sustainable for the income capacity of the Issuer; or

(2) the Issuer has demonstrated to the satisfaction of the Relevant Regulator that its Tier 1 Capital and Tier 2 Capital would, following such reduction, repurchase, call or redemption, exceed the capital ratios required under CRD IV by a margin that the Relevant Regulator may consider necessary on the basis set out in CRD IV.

Further, Article 78 provides that the Relevant Regulator may only permit the Issuer to redeem the Notes before the fifth anniversary of their Issue Date not only if either of the conditions referred to in paragraphs (1) or (2) above is met, but also:

(a) in the case of redemption due to the occurrence of a Capital Disqualification Event, (i) the Relevant Regulator considers such change to be sufficiently certain and (ii) the Issuer demonstrates to the satisfaction of the Relevant Regulator that the Capital Disqualification Event was not reasonably foreseeable at the Issue Date; or

(b) in the case of redemption due to the occurrence of a Tax Event, the Issuer demonstrates to the satisfaction of the Relevant Regulator that such Tax Event is material and was not reasonably foreseeable at the Issue Date.

Prior to the publication of any notice of substitution, variation or redemption pursuant to this Condition 6 (*Redemption, Substitution, Variation and Purchase*) (other than redemption pursuant to Condition 6(*c*) (*Issuer's Call Option*)), the Issuer shall deliver to the

Trustee a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or, as appropriate, vary is satisfied and, in the case of a substitution or variation, that the relevant Qualifying Tier 2 Securities have terms not materially less favourable to an investor than the terms of the Notes and will as from the date of such substitution or variation otherwise comply with the requirements of the definition thereof in Condition 19 (*Definitions*) and the Trustee shall accept such certificate without any further inquiry and without liability to any person for so doing as sufficient evidence of the satisfaction of the relevant conditions precedent in which event it shall be conclusive and binding on the Trustee and the Holders.

(c) Issuer's Call Option

Subject to Condition 6(*b*) (*Conditions to Redemption, Substitution, Variation and Purchase*), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 14 (*Notices*), the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable), elect to redeem all, but not some only, of the Notes on the First Reset Date or on any Interest Payment Date thereafter at their principal amount, together with any interest accrued to the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(d) Redemption Due to Taxation

If, immediately prior to the giving of the notice referred to below, a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 6(*b*) (*Conditions to Redemption, Substitution, Variation and Purchase*) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 14 (*Notices*), the Trustee, the Registrar, the Principal Paying Agent (which notice shall be irrevocable), elect to redeem in accordance with these Conditions at any time prior to the First Reset Date, all, but not some only, of the Notes at their principal amount, together with any interest accrued to the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(e) Redemption for Regulatory Purposes

If, immediately prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 6(*b*) (*Conditions to Redemption, Substitution, Variation and Purchase*) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 14 (*Notices*), the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable), elect to redeem in accordance with these Conditions at any time prior to the First Reset Date, all, but not some only, of the Notes at their principal amount, together with any interest accrued to the date fixed for redemption. Upon the expiry of such notice, the Issuer shall redeem the Notes.

(f) Substitution or Variation

If a Tax Event or a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 6(*b*) (*Conditions to Redemption, Substitution, Variation and Purchase*) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 14 (*Notices*), the Trustee, the Registrar and the Principal Paying Agent (which notice shall be irrevocable) but without any requirement for the consent or approval of the Holders, at any time (whether before or following the First

Reset Date) either substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Tier 2 Securities, and the Trustee shall (subject to the following provisions of this Condition 6(*f*) (*Substitution or Variation*) and subject to the receipt by it of the certificates of the Authorised Signatories referred to in Condition 6(*b*) (*Conditions to Redemption, Substitution, Variation and Purchase*) above and in the definition of Qualifying Tier 2 Securities) agree to such substitution or variation. Upon the expiry of such notice, the Issuer shall either vary the terms of or substitute the Notes in accordance with this Condition 6(*f*) (*Substitution or Variation*), as the case may be. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution of the Notes for, or the variation of the terms of the Notes so that they remain, or as appropriate, become, Qualifying Tier 2 Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed alternative Qualifying Tier 2 Securities or the participation in or assistance with such substitution or variation would have the effect of, in the Trustee's opinion, more onerous obligations upon it or require the Trustee to incur any liability for which it is not indemnified and/or secured and/or prefunded to its satisfaction. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may, subject as provided above, redeem the Notes prior to the First Reset Date as provided in, as appropriate, Condition 6(*d*) (*Redemption*) or (*e*) (*Redemption for Regulatory Purposes*) or thereafter as provided in Condition 6(*c*) (*Issuer's Call Option*).

In connection with any substitution or variation in accordance with this Condition 6(*f*) (*Substitution or Variation*), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(g) Purchases

The Issuer or any of its Subsidiaries may, subject to Condition 6(*b*) (*Conditions to Redemption, Substitution, Variation and Purchase*), at any time purchase, or procure others to purchase beneficially for its account, Notes in any manner and at any price. The Notes so purchased, while held by or on behalf of the Issuer or any of its Subsidiaries, shall not entitle the Holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 8(*c*) (*Entitlement of Trustee*).

(h) Cancellation

All Notes redeemed by the Issuer pursuant to this Condition 6 (*Redemption, Substitution, Variation and Purchase*) will forthwith be cancelled. All Notes purchased by or on behalf of the Issuer may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation to the Registrar. Notes so surrendered, shall be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(i) Trustee Not Obliged to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 (*Redemption, Substitution, Variation and Purchase*) and will not be responsible to Holders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 6 (*Redemption, Substitution, Variation and Purchase*), it shall be entitled to assume that no such event or circumstance exists.

7. Payments

(a) Method of Payment

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the business day before the due date for payment thereof (the **"Record Date"**). Such payment of interest shall be made by transfer to an account in pounds sterling maintained by the payee with a bank in London.

(b) Payments Subject to Laws

Save as provided in Condition 9 (*Taxation*), payments will be subject in all cases to any applicable fiscal or other laws, regulations, directives and agreements in the place of payment or other laws or regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) Payments on Business Days

Payment instructions (for value the due date, or if that date is not a Business Day, for value the first following day which is a Business Day) will be initiated on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) Delay in Payment

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Business Day or if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(e) Non-Business Days

If any date for payment in respect of any Note is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7 (*Payments*), **"business day"** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and on which foreign exchange transactions may be carried on in pounds sterling in London.

8. Default

(a) Default

If the Issuer shall not make payment in respect of the Notes (in the case of payment of principal) for a period of seven days or more or (in the case of any interest payment or any other amount in respect of interest) shall not make payment for a period of 14 days or more, in each case after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed and the Notes, and the Trustee in its absolute discretion may, notwithstanding the provisions of Condition 8(*b*) (*Enforcement*) and subject to Condition 8(*c*) (*Entitlement of Trustee*), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

(b) Enforcement

Without prejudice to Condition 8(*a*) (*Default*) and subject to Condition 8(*c*) (*Entitlement of Trustee*), the Trustee may in its absolute discretion and without further notice institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including, without limitation, payment of any principal or interest in respect of the Notes, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it pursuant to these Conditions and the Trust Deed. Nothing in this Condition 8(*b*) (*Enforcement*) shall, however, prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from the Notes or the Trust Deed (including any damages awarded for breach of any obligations).

(c) Entitlement of Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 8(*a*) (*Default*) or (*b*) (*Enforcement*) above against the Issuer to enforce the terms of the Trust Deed or the Notes unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) Right of Holders

No Holder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 8 (*Default*).

(e) ***Extent of Holders' remedy***

No remedy against the Issuer, other than as referred to in this Condition 8 (*Default*), shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

9. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction or any political subdivision thereof or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer will pay such additional amounts (**"Additional Amounts"**) as will result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note:

(a) held by or on behalf of a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Relevant Jurisdiction other than a mere holding of such Note;

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) in respect of which the certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Conditions to principal, interest, and/or any other amount in respect of interest shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10. Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11. Meetings of Holders, Modification and Waiver

(a) Meetings of Holders

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Holders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Holders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, modifying the Maturity Date or First Reset Date or the dates on which interest is payable on the Notes, reducing or cancelling the principal amount of, or interest on, or varying the method of calculating the rate of interest or reducing the minimum rate of interest on, the Notes, changing the currency of payment of the Notes, any proposal to change the subordination of the Notes referred to in Conditions 3 (*Status*) and 4 (*Subordination*) and/or the Trust Deed, modifying the provisions of the Trust Deed concerning the quorum required at a meeting or the majority required to pass an Extraordinary Resolution) and certain other provisions of the Trust Deed the quorum will be one or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

(b) Modification of the Trust Deed

The Trustee may agree, without the consent of the Holders, to (i) any modification of these Conditions or of any other provisions of the Trust Deed or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of these Conditions or of the provisions of the Trust Deed or the Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provisions entitling the Holders to institute proceedings for the winding-up of the Issuer which are more extensive than those set out in Condition 8 (*Default*)). Any such modification, authorisation or waiver shall be binding on the Holders and, if the Trustee so requires, such modification shall be notified to the Holders as soon as practicable. No modification to these Conditions or any other provisions of the Trust Deed shall become effective unless (if and to the extent required at the relevant time by the Relevant Regulator) the Issuer shall have given at least 30 days' prior written notice thereof to, and received permission therefor from, the Relevant Regulator (or such other period of notice as the Relevant Regulator may from time to time require or accept and, in any event, provided that there is a requirement to give such notice and obtain such permission).

(c) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

(d) Notices

Any such modification, waiver or authorisation shall be binding on all Holders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Holders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

12. Replacement of the Notes

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of, and/or the provision of security and/or prefunding for, the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Holders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Holders.

14. Notices

Notices to the Holders shall be mailed to them at their respective addresses in the Register and deemed to have been given on the second weekday (being a day other than a Saturday or Sunday) after the date of mailing. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading.

15. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16. Agents

The initial Principal Paying Agent, the Registrar, the Agent Bank and the Transfer Agent and their initial specified offices are listed below. They act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, the Registrar, the Agent Bank and the Transfer Agents and to appoint additional or other Transfer Agents, provided that it will:

(a) at all times maintain a Principal Paying Agent, a Registrar and a Transfer Agent;

(b) whenever a function expressed in these Conditions to be performed by the Agent Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank; and

(c) at all times maintain an Agent (as defined in the Trust Deed) to act as paying agent in relation to the Notes having a specified office in a major city in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced to conform to such Directive which is approved by the Trustee.

Notice of any such termination or appointment and of any change in the specified offices of the Agents will be given to the Holders in accordance with Condition 14 (*Notices*). If any of the Agent Bank, Registrar or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Agency Agreement (as the case may be), the Issuer shall appoint (at its own expense), on terms acceptable to and approved in writing by the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place. Any determination or calculation by such independent financial institution shall (in the absence of manifest error) be final and binding upon all parties.

17. Governing Law

The Trust Deed, the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England.

18. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes by virtue of the Contracts (Rights of Third Parties) Act 1999.

19. Definitions

In these Conditions:

"Additional Amounts" has the meaning given to it in Condition 9 (*Taxation*);

"Agency Agreement" has the meaning given to it in the preamble to these Conditions;

"Agent Bank" has the meaning given to it in the preamble to these Conditions;

"Authorised Signatories" means any two of the Directors or any one Director and the company secretary of the Issuer;

"Business Day" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London;

"Calculation Amount" means £1,000 in principal amount;

a **"Capital Disqualification Event"** is deemed to have occurred if at any time the Issuer determines, after consultation with the Relevant Regulator, that as a result of a change (or prospective future change which the Relevant Regulator considers to be sufficiently certain) to the Regulatory Capital Requirements (or any change in the interpretation or application thereof by the Relevant Regulator), in any such case becoming effective on or after the Issue Date, the outstanding aggregate principal amount of the Notes is, or is likely to be, fully excluded from inclusion in the Tier 2 Capital of the Issuer and/or Group and save where such non-qualification is only as a result of any applicable limitation on the amount of such capital;

"Conditions" means these terms and conditions of the Notes, as amended from time to time;

"Directors" means the directors of the Issuer;

"EEA Regulated Market" means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments;

"First Reset Date" means 6 May 2021;

"Fixed Interest Rate" has the meaning given to it in Condition 5(*c*) (*Fixed Interest Rate*);

"Fixed Rate Interest Period" means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

"Floating Interest Amounts" has the meaning given to it in Condition 5(*e*) (*Determination of Floating Interest Rate and Calculation of Floating Interest Amounts*);

"Floating Interest Rate" has the meaning given to it in Condition 5(*d*) (*Floating Interest Rate*);

"Group" means the Issuer and its Subsidiaries;

"Holder" has the meaning given to it in Condition 1 (*Form, Denomination and Title*);

"Interest Determination Date" means, in relation to each Interest Period from and including the Interest Period beginning on the First Reset Date, the first Business Day of the relevant Interest Period;

"Interest Payment Date" means (i) in respect of the Fixed Rate Interest Period 6 May and 6 November in each year, starting on (and including) 6 November 2014 and (ii) after the First Reset Date, 6 February, 6 May, 6 August and 6 November in each year, starting on (and including) 6 August 2021, provided that if any Interest Payment Date after the First Reset Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

"Interest Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Rate" means the Fixed Interest Rate and/or the relevant Floating Interest Rate, as the case may be;

"Issue Date" means 1 May 2014, being the date of the initial issue of the Notes;

"Issuer" has the meaning given to it in the preamble to these Conditions;

"Margin" means 3.43 per cent.;

"Market" means the London Stock Exchange's EEA Regulated Market;

"Maturity Date" has the meaning given to it in Condition 6(*a*) (*Final Redemption*);

"Noteholder" has the meaning given to it in Condition 1 (*Form, Denomination and Title*);

"Notes" has the meaning given to it in the preamble to these Conditions;

"Official List" means the official list of the UK Listing Authority;

"pounds sterling" or **"pence"** means the lawful currency of the United Kingdom;

"Principal Paying Agent" has the meaning given to it in the preamble to these Conditions;

"Qualifying Tier 2 Securities" means securities issued directly by the Issuer that:

(a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an investment bank or financial adviser of international standing (which in either case is independent of the Issuer), and provided that a certification to such effect of two Authorised Signatories shall have been delivered to the Trustee prior to the issue or, as appropriate, variation of the relevant securities), and, subject thereto, which (1) contain terms which comply with the then current requirements of the Relevant Regulator in relation to Tier 2 Capital; (2) include terms which provide for the same Interest Rate from time to time applying to the Notes, and preserve the Interest Payment Dates; (3) rank senior to, or *pari passu* with, the ranking of the Notes; (4) preserve any existing rights under these Conditions to any accrued interest or other amounts which have not been paid; (5) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; and (6) do not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares; and

(b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld or delayed;

"Recognised Stock Exchange" means a recognised stock exchange as defined in Section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provision, statute or statutory instrument replacing the same from time to time;

"Reference Banks" means four major banks in the interbank market in London as selected by the Agent Bank, after consultation with the Issuer;

"Regulatory Capital Requirements" means any applicable minimum capital or capital requirement specified for banks or financial groups by the Relevant Regulator;

"Relevant Date" means (i) in respect of any payment other than a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender, and (ii) in respect of a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

"Relevant Jurisdiction" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or in the event that the Issuer ceases to be resident for tax purposes in the United Kingdom, such other country in which the Issuer is resident for tax purposes;

"Relevant Regulator" means the Prudential Regulation Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary supervisory authority in prudential matters with respect to the Issuer and/or the TSB Group;

"**Senior Creditors"** means (a) creditors of the Issuer whose claims are admitted to proof in the winding up or administration of the Issuer and who are unsubordinated creditors of the Issuer; and (b) creditors of the Issuer whose claims are or are expressed to be subordinated to the claims of other creditors of the Issuer (other than those whose claims constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or Tier 2 Capital or whose claims rank or are expressed to rank *pari passu* with, or junior to, the claims of Holders);

"Subsidiaries" has the meaning provided in section 1159 of the Companies Act 2006;

"Tax Event" is deemed to have occurred if:

(i) as a result of a Tax Law Change, in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts; or

(ii) a Tax Law Change would:

(a) result in the Issuer not being entitled to claim a deduction in respect of any payments in respect of the Notes in computing its taxation liabilities or materially reducing the amount of such deduction;

(b) prevent the Notes from being treated as loan relationships for United Kingdom tax purposes;

(c) as a result of the Notes being in issue, result in the Issuer not being able to have losses or deductions set against the profits or gains, or profits or gains offset by the losses or deductions, of companies with which it is or would otherwise be so grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the date of issue of the Notes or any similar system or systems having like effect as may from time to time exist); or

(d) result in a Note or any part thereof being treated as a derivative or an embedded derivative for United Kingdom tax purposes;

"Tax Law Change" means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of a Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Notes, which change or amendment (x) (subject to (y)) becomes, or would become, effective on or after 30 April 2014, or (y) in the case of a change or proposed change in law, if such change is enacted (or, in the case of a proposed change, is expected to be enacted), on or after 30 April 2014;

"Tier 1 Capital" has the meaning given to it from time to time by the Relevant Regulator;

"Tier 2 Capital" has the meaning given to it from time to time by the Relevant Regulator;

"Transfer Agents" has the meaning given to it in the preamble to these Conditions;

"Trust Deed" has the meaning given to it in the preamble to these Conditions;

"Trustee" has the meaning given to it in the preamble to these Conditions; and

"United Kingdom" means the United Kingdom of Great Britain and Northern Ireland.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

1. Exchange

The Global Certificate may only be exchangeable in part (free of charge to the holder) for Certificates described below (i) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an **"Alternative Clearing System"**) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if principal in respect of any Notes is not paid when due and payable or (iii) with the consent of the Issuer provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the holder of the Notes represented by the Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Notes represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

2. Payments

The Issuer, for value received, promises to pay to the holder of the Notes represented by the Global Certificate (subject to surrender of the Global Certificate if no further payment falls to be made in respect of such Notes) on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of such Notes represented by the Global Certificate and (unless the Notes represented by the Certificate do not bear interest) to pay interest in respect of such Notes from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by the Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions. Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

3. Notices

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or an Alternative Clearing System for communication by it to entitled accountholders, rather than by notification as required by the Conditions.

Such notices shall be deemed to have been given to Noteholders on the date of delivery to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

4. Meetings

The holder of Notes represented by the Global Certificate shall (unless the Global Certificate represents only one Note) be treated as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

USE OF PROCEEDS

The proceeds of the issue of the Notes are used for general business purposes of the TSB Group.

DESCRIPTION OF TSB

CORPORATE DETAILS OF THE ISSUER

TSB Banking Group plc (the **"Issuer"**) is domiciled in the UK. The Issuer was incorporated and registered in England and Wales on 31 January 2014 as a public company limited by shares under the Companies Act 2006 with the legal and commercial name TSB Banking Group plc and with the registered number 8871766. The Issuer's registered office and principal place of business is at 20 Gresham Street, London EC2V 7JE (telephone number: +44 (0)20 700 39419).

INTRODUCTION

On 9 September 2013, TSB was launched as a re-branded retail bank operating in the UK with branches across England, Scotland and Wales. The Issuer is the parent company of the TSB Group, which carries on a retail banking business which operates in the UK. The Issuer has one principal subsidiary, TSB Bank, which is incorporated in Scotland.

BACKGROUND

In November 2009, Lloyds Banking Group announced that it had agreed the terms of a restructuring plan with the European Commission, including the divestment of a significant UK retail banking business (the business that is TSB today) as part of the approval by the European Commission of the State aid granted to Lloyds Banking Group.

H.M. Treasury’s financial support of Lloyds Banking Group during a period of unprecedented turbulence in the global financial markets in 2008 – 2009 was deemed by the European Commission to have constituted State aid. As a result of the European Commission decision in relation to the same, Lloyds Banking Group was required to dispose of a UK retail banking business meeting certain criteria, with the aim of bringing more competition to UK retail banking. The criteria to be met by the divestment business, which was referred to by Lloyds Banking Group as ‘Verde’, included a minimum number of branches and their customers, a minimum share of the PCA market in the UK and a specified proportion of Lloyds Banking Group’s mortgage assets meeting certain quality thresholds, with completion of the divestment to take place before the end of November 2013.

The aim of Lloyds Banking Group’s Verde programme was to build and create the divestment business to meet the agreed criteria (known within Lloyds Banking Group as the Verde "perimeter"), to separate it from Lloyds Banking Group’s other businesses and ultimately to divest it within the specified timeframe. To avoid the need to obtain a new banking licence, an existing entity (then called Lloyds TSB Scotland plc) within Lloyds Banking Group, with its own banking licence and operating history, was chosen as the corporate vehicle for the Verde business. This entity is now TSB Bank plc, and its immediate holding company is the Issuer. The board of directors of the Issuer (the **"Board"**) recognises that TSB was created under the direction of the European Commission and H.M. Treasury with regard to recommendations from the OFT and ICB in order to be a viable and effective challenger in the UK retail banking market.

In June 2011, Lloyds Banking Group issued an information memorandum to potential bidders as part of a process for the sale of the divestment business and, in December 2011, announced that it was entering into exclusive discussions with the Co-operative Group. A period of negotiations followed but were ultimately unsuccessful, ending, in April 2013, with the withdrawal of the Co-operative Group from the sale process. At that point, Lloyds Banking Group announced its intention to pursue the divestment through an initial public offering, having maintained that option throughout the process.

As a result of the bilateral sale discussions with the Co-operative Group and subsequent preparations for an initial public offering, since 2009, the European Commission has agreed to a series of amendments to the Verde perimeter, which were formally agreed in May 2014. The Verde perimeter was also enhanced following OFT recommendations to the Chancellor of the Exchequer announced on 11 September 2013. The TSB business has been built and created in line with these revised requirements. The European Commission has also agreed to a revised deadline of 31 December 2015 for full divestment of Lloyds Banking Group's interest in TSB, which may be extendable to 30 June 2016 or 31 December 2016 (depending on the proportion of Lloyds Banking Group's interest in TSB that has already been divested) in the event of Disorderly Markets. The Offer (as defined below) represents the first step toward Lloyds Banking Group meeting its commitments in relation to full divestment.

THE ADMISSION

Until Admission (as defined below), the Issuer was a wholly-owned indirect subsidiary of Lloyds Banking Group. Lloyds Banking Group's 100 per cent. interest in the Issuer was held through Lloyds Bank (the **"Selling Shareholder"**).

On 9 June 2014 Lloyds Banking Group plc published a prospectus for an initial public offering of the Issuer (**"Offer"**). Pursuant to the Offer, the Selling Shareholder sold ordinary shares of the Issuer (**"Ordinary Shares"**), representing 38.5 per cent. of the issued Ordinary Share capital of the Issuer. In connection with the Offer, the Ordinary Shares of the Issuer were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities (together, **"Admission"**) on 25 June 2014. On 26 September 2014, Lloyds Banking Group sold a further 11.5 per cent. of the issued Ordinary Shares of the Issuer, leaving Lloyds Banking Group holding approximately 50 per cent. of the issued Ordinary Shares of the Issuer.

There is a relationship agreement in place between Lloyds Banking Group plc and the Issuer that takes effect from Admission. See "*Material Contracts – Relationship Agreement*" for further information.

STRATEGY

TSB's strategy is one of growth. The strategy is aimed at efficiently growing its key market shares by utilising the substantial scale of its distribution capability and infrastructure. Successful delivery of this strategy in a rising base rate environment will enable TSB to meet its objective of reaching a double digit return on equity in about 5 years, increasing further into the longer term.

The key components of TSB's strategy are to grow TSB's share of the current account market, to lend more to people right across Britain, and to continue to enhance the TSB proposition including deploying its considerable digital banking capability.

Over the next five years, TSB aims to increase its share of current accounts by consistently achieving more than 6 per cent. of the gross flow in this market. Over the same period, TSB expects to grow TSB Franchise lending by 40 to 50 per cent., materially enabled through re-entry into the intermediary mortgage market. This growth will be undertaken responsibly, within TSB's conservative risk appetite, and with funding provided primarily by customer deposits.

A focus on differentiating customer service and specific initiatives to enhance TSB's proposition will serve to build greater consideration of the TSB brand. TSB will focus on controlling costs as it grows the business and this will also play a key role as TSB completes the build of the business and begins to invest in the TSB Franchise.

CURRENT OPERATIONS AND PRINCIPAL ACTIVITIES

TSB is a fully functioning UK retail bank:

- As at 31 March 2014, TSB had approximately 4.5 million retail and approximately 113,000 small business banking customers;
- TSB has a multi-channel, national distribution model, including 631 branches (as at 30 June 2014) with coverage across England, Scotland and Wales and a full digital (internet and mobile) and telephony capability;
- TSB's comprehensive product suite includes PCAs, savings products, mortgages, unsecured personal and business lending and certain insurance products; and
- TSB's service and sales capability is supported by approximately 8,600 employees.

TSB also has a simple balance sheet and comparatively low-risk financial structure overall. As at 30 June 2014, TSB had TSB Franchise customer assets of £19.4 billion and TSB Franchise customer deposits of £23.7 billion. As at the same date it also held the beneficial title to £3.1 billion (in nominal value) of Additional Mortgages, beneficial title to which was transferred by Bank of Scotland to TSB Bank with effect from 28 February 2014. Additionally, as at 30 June 2014 TSB's Common Equity Tier 1 Ratio was 28.1 per cent., its Total Capital Ratio was 34.9 per cent. and its Leverage Ratio was 5.9 per cent. TSB's illustrative Common Equity Tier 1 Capital Ratio on a fully IRB basis (in respect of the TSB Franchise business) was 18.2 per cent. TSB also benefits from a broad and (save in certain limited respects) uncapped Conduct Indemnity from Lloyds Bank against losses arising out of historical conduct issues.

The Board believes that TSB has substantial capacity for growth. As at 31 August 2013, TSB had approximately 6 per cent. of the retail bank branches in the UK and, as at 30 June 2014, a share of approximately 4.2 per cent. of the PCA market, which the Board believes leads to opportunities to increase TSB's proportion of PCA market flow and consequently to grow the asset side of TSB's balance sheet through secured (primarily through re-entry into the intermediary mortgage market) and unsecured lending. Further, TSB receives a range of IT and banking operational services from Lloyds Bank under the TSA and LTSA. The nature of TSB's operating model, together with the terms of the TSA and LTSA, allow for scalability of TSB's banking platform, including to take advantage of growth opportunities in the TSB business.

In addition, TSB is entitled to the economic benefit of the Additional Mortgages from Bank of Scotland. The Mortgage Enhancement has been designed with the aim of enhancing TSB's profit by approximately £220 million in aggregate over the four years from (and including) 2014. The legal title to the Additional Mortgages remains with Bank of Scotland and Bank of Scotland may require TSB Bank to sell its equitable interest in the Additional Mortgages back to Bank of Scotland once certain triggers, based on a determination of the profit deemed to have been earned by TSB Bank from the Additional Mortgages, have been met.

BUSINESS AND ACTIVITIES

TSB offers a range of banking services and products to individuals and predominantly 'micro' business banking customers throughout the UK.

1. Deposits

PCAs

As at 30 June 2014, TSB had £7.1 billion of current account deposits. For most retail customers, a PCA is at the core of their overall relationship with a bank. PCAs provide retail banks with loyal customers and a source of resilient, low-cost funding. Whilst TSB offers attractive rates of interest on qualifying PCA balances held on some of its PCA products, in common with some other market participants, the majority of its PCA deposits are non-interest bearing.

Savings accounts

As at 30 June 2014, TSB had £16.6 billion of savings account customer deposits. Savings accounts can offer a fixed interest rate for a fixed term, or a variable interest rate (which may change at the discretion of the bank but often moves in response to changes in the Bank of England base rate). Variable rate savings accounts may also include a "bonus" rate on top of the standard variable deposit rate for a specified term. Deposits held with savings accounts can either be instant access (where customers can withdraw the deposits at any time) or be term deposits (where customers can only withdraw deposits without penalty at the end of the term).

2. Residential mortgages and unsecured lending

Residential mortgages

The information in this paragraph in relation to TSB’s residential mortgage business excludes information in relation to the Additional Mortgages. As at 30 June 2014, TSB had total TSB Franchise mortgage assets of £17.1 billion.

During the half year ending 30 June 2014, TSB's gross new mortgage lending amounted to £671.8 million.

TSB’s residential mortgage portfolio consists solely of residential mortgage loans to individuals secured on residential properties located in the UK. The majority of TSB’s residential mortgage loans are fully secured by way of a first ranking charge on the residential property to which the mortgage loan relates on terms which allow for the repossession and sale of the property if the borrower fails to comply with the terms of the loan.

TSB offers both mainstream residential mortgage lending (where the borrower is the owner and occupier of the mortgaged property) and buy-to-let lending (where the borrower intends to let the mortgaged property). In common with other residential mortgage lenders in the UK, TSB does not currently offer mortgages to borrowers who self-certify their income or who have adverse credit histories (sub-prime). However, unlike many lenders, TSB also has no historical self-certification or sub-prime business in its mortgage portfolio.

As at 30 June 2014, TSB’s mortgage assets had an average indexed loan to value ratio (**"Indexed LTV"**) of 45 per cent. and only 6.6 per cent. of the mortgage book had an Indexed LTV Ratio of greater than 90 per cent.

TSB does not currently participate in the ‘Help to Buy’ scheme, under which the Government provides a guarantee to lenders of up to 15 per cent. of a loan’s value. The Help to Buy scheme has already improved the availability of higher LTV mortgages in the market, but none of TSB’s higher Indexed LTV mortgages have the benefit of this Government guarantee.

Unsecured lending

The unsecured lending products offered to retail customers by TSB consist of unsecured personal loans, credit cards and overdrafts.

As at 30 June 2014, TSB's unsecured lending portfolio was £2.1 billion.

Unsecured personal loans

TSB's unsecured personal loan portfolio consists of fixed rate lending to customers who have an existing relationship with TSB, 'Graduate Loans' for customers who require assistance with their finance following graduation and an 'Additional Borrowing' facility for customers who already have an unsecured personal loan with TSB.

There is a greater risk of loss for TSB on unsecured personal lending than there is on residential mortgage lending due to the fact that TSB holds no security that can be enforced if the customer defaults on the loan. As a result, the interest rates on TSB's unsecured personal loans are higher than the interest rates on TSB's residential mortgage loans.

Credit cards

As at 31 December 2013, TSB had approximately 734,400 credit card accounts, of which 468,400 were active during December 2013 (in that the relevant account recorded a debit or credit or carried a balance during that period).

PCA Overdrafts

TSB also offers both planned and unplanned overdrafts to its PCA customers. Planned overdrafts are overdrafts that have been formally agreed to by TSB. Unplanned overdrafts are overdrafts that have not been formally agreed to by TSB and occur where a PCA holder pays or withdraws money from their PCA in excess of their credit balance or the amount of their planned overdraft.

3. Insurance products

TSB currently offers, through its branches, a home and contents insurance product which is administered and underwritten by Lloyds Banking Group companies. Legal & General offer life and critical illness insurance products to TSB customers.

4. Business banking

TSB does not have a full service business banking offering and its business banking products, services and IT capability are geared toward meeting the basic banking needs of 'micro' business banking customers (which TSB defines as business banking customers with a revenue of less than £500,000 and borrowing no more than €1 million). TSB offers a range of products aimed at meeting the needs of its business banking customers, in the form of business current accounts (**"BCAs"**), savings products and secured and unsecured lending products.

REGULATION

1. UK Regulators

TSB falls under the ambit of UK banking regulators and regulation.

The PRA, the FCA and the Financial Policy Committee

Under the Financial Services Act 2012, a range of structural reforms to UK financial regulatory bodies were implemented, with the Financial Services Authority (the **"FSA"**) being replaced from 1 April 2013 by the following bodies: (i) the PRA; (ii) the FCA; and (iii) the Financial Policy Committee (the **"FPC"**).

The PRA, a subsidiary of the Bank of England, has responsibility for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets, including banks, insurers and some large investment firms. The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the FSA's market regulatory functions, and it represents the UK's interests in markets regulation at the European Securities and Markets Authority. TSB Bank is authorised by the PRA and is regulated by both the PRA and the FCA.

The FPC, which sits within the Bank of England, is tasked with macro-prudential regulation, or regulation of the stability and resilience of the financial system as a whole.

For the purposes of this section, the terms the **"Relevant Regulator"** and **"Relevant Regulators"** refer, as the context requires, to one or more of the PRA, FCA and/or FPC.

The UK Government

The UK Government has no operational responsibility for the activities of the PRA, the FCA or the FPC. However, there are a variety of circumstances where the PRA, the FCA and the FPC will need to alert H.M. Treasury (as the representative of the UK Government) about possible problems, for example, in terms of the PRA, where there may be a need for a support operation or a problem arises which could cause wider economic disruption and, in terms of the FCA, where there has been a significant regulatory failure to secure appropriate consumer protection.

The Financial Ombudsman Service

The FSMA established the FOS, which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money that can be awarded by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012 (£100,000 for earlier complaints) plus interest and costs. The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate.

2. UK Regulation

Overview of the UK financial services regulation

Financial Services and Markets Act 2000

The cornerstone of the regulatory regime in the UK is the FSMA, which came into force on 1 December 2001. However, the framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by European Union legislation.

The FSMA prohibits any person from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK unless that person is authorised or exempt under the FSMA (the **"General Prohibition"**). Regulated activities include deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments and managing investments).

The UK regulators are responsible for the authorisation and supervision of institutions that provide regulated financial products and services as defined in the FSMA in the UK. TSB Bank is authorised by the PRA with permission to undertake, among other things, deposit-taking, mortgage and certain investment activities. The FSMA also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised person or exempt from such requirements.

Financial services handbooks

The FSMA (as amended by the Financial Services Act 2012, as amended (the **"FSA 2012"**) imposes an ongoing system of regulation and control on banks. The detailed rules and prudential standards set by the FCA and the PRA are contained in various parts of their respective handbooks (the "**FCA Handbook**" and the "**PRA Handbook and Rulebook**", and together the **"FCA and PRA Handbooks"**). In addition, the PRA is in the process of rewriting the PRA Handbook into the PRA Rulebook.

Supervision and enforcement

Supervision

Each of the PRA and the FCA has wide powers, where relevant, to supervise and intervene in, the affairs of a firm authorised and regulated under, or pursuant to, the FSMA. These powers were extended under the FSA 2012.

The nature and extent of a Relevant Regulator's supervisory relationship with a firm depends on how much of a risk the Relevant Regulator considers that firm could pose to its statutory objectives. The PRA's supervisory interventions will focus on reducing the likelihood of a firm failing and on ensuring that if it does fail, it does so in an orderly manner. The PRA has introduced the 'Proactive Intervention Framework' to support early identification of risks to a firm's viability (and enable appropriate supervisory actions to be taken to address such risks if necessary) on the basis of information collected. The PRA conducts its assessment work on a continuous cycle.

When taking action, the Relevant Regulator can, for instance, require firms to provide particular information or documents to it, require the production of a report by a "skilled person" (as defined in the glossary to the FCA and PRA Handbooks), appointed by either the authorised person or the Relevant Regulator, or formally investigate a firm. Where it will advance its objectives, the PRA has a broad power of direction over qualifying unregulated parent undertakings.

Enforcement

The Relevant Regulators have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. Most notably, enforcement actions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an approved person's status. The Relevant Regulators can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months, or that fails to meet the threshold conditions.

Capital adequacy and European regulatory landscape

TSB is subject to capital adequacy requirements and guidelines adopted by the PRA for a bank, which provide for a minimum ratio of total capital to risk weighted assets, expressed as a percentage. The PRA's capital adequacy requirements and guidelines for banks are found in the PRA Handbook and new PRA Rulebook, as well as the Capital Requirements Regulation (as defined below).

European Union legislation transposing the current risk-adjusted capital guidelines, through the Banking Consolidation Directive (2006/28/EC) and the recast Capital Adequacy Directive (2006/49/EC) (together the **"Capital Requirements Directive"**), was partially implemented at the start of 2007, with more advanced techniques in relation to the calculation of capital requirements for credit risk and operational risk implemented at the start of 2008. The Capital Requirements Directive has since been amended by CRD II and CRD III, which further tightened the capital requirements for trading books and securitisations. CRD III entered into force on 15 December 2010 and, following its implementation, the last of its provisions came into force in the UK on 16 April 2012.

The Basel Committee subsequently approved the Basel III proposals in 2011, including new capital and liquidity requirements intended to reinforce capital standards, with heightened requirements for global systemically important banks, and to establish minimum liquidity standards for credit institutions.

The European Commission published corresponding proposals to implement Basel III through CRD IV on 20 July 2011. The CRD IV draft legislation was approved by the European Council on 21 June 2013 and published in the Official Journal on 26 June 2013.

CRD IV substantially reflects the Basel III capital and liquidity standards, although certain details continue to be clarified in further binding technical standards issued by the EBA. CRD IV came into force in January 2014, but will only be fully implemented by January 2019; however, the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or levels of capital more quickly than is envisaged under Basel III. In the United Kingdom, the PRA has confirmed acceleration of the introduction of certain of the enhanced capital requirements under CRD IV. In accordance with the PRA's rules and supervisory statements published on 19 December 2013, the PRA will require TSB to meet certain capital targets within certain prescribed time frames, without having regard to any transitional provisions in that respect. The actual impact of CRD IV on capital ratios may be materially different as the CRD IV requirements adopted in the United Kingdom may change, whether as a result of further changes to CRD IV agreed by EU legislators, binding regulatory technical standards to be adopted by the EBA or changes to the way in which the PRA interprets or applies these requirements to the UK.

The Bank of England is currently consulting on the leverage ratio and potential alternatives as part of the leverage framework.

Recovery and resolution

In light of the crisis in the financial markets, the Banking Act received Royal Assent in February 2009 and certain provisions, including those relating to bank insolvency and bank administration, came into force at that time. The Banking Act provides the PRA, the Bank of England and H.M. Treasury with tools for dealing with failing institutions. These tools consist of three stabilisation options, which are designed to address a distressed bank which is failing or is likely to fail to meet the threshold conditions and which cannot be assisted through normal regulatory action or market-based solutions. The Banking Act also makes provision for special insolvency processes which authorities can utilise to deal with failing banks.

Recovery and resolution proposals

In June 2012, the European Commission published a draft of the BRRD, intended to establish an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Political agreement on the BRRD was reached between the European Parliament and EU Member States in December 2013 and on 12 June 2014, the BRRD was published in the Official Journal. The BRRD as it relates to capital write-down must be implemented by EU Member States not later than 1 January 2015 with a more general bail-in tool (applicable to a broader range of eligible liabilities) being required to be implemented not later than 1 January 2016. The HMT and PRA are currently consulting on the implementation of the BRRD.

Consumer credit regulation

Recent reforms have brought the UK consumer credit regime under the umbrella of the FSMA and transferred the responsibility for the oversight and regulation of consumer credit from the OFT to the FCA with effect from 1 April 2014. The reformed regulatory framework comprises the FSMA and its secondary legislation, retained provisions in the CCA and rules and guidance in the FCA Handbook, including the FCA's Consumer Credit Sourcebook (for the purposes of this section, collectively the **"New Regime"**).

Under the New Regime, the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 has been amended to extend the definition of “regulated activities” to consumer credit activities including entering into a “regulated credit agreement” as lender. A regulated credit agreement is any “credit agreement” that is not an “exempt agreement”. A credit agreement is any agreement between an individual or relevant recipient of credit (**"A"**) and any other person (**"B"**), under which B provides A with “credit” of any amount. Credit is widely defined and includes cash loans and any other form of financial accommodation. Exempt agreements include those predominantly for the purposes of a business, those secured on land or otherwise by mortgage and those where a local authority or other specified type of organisation is the lender. Other consumer credit activities which are now regulated include credit broking, debt-related consumer credit activities, entering into a regulated consumer hire agreement as owner or lender, operating an electronic system in relation to lending and providing credit information services and credit references.

Consumer credit activities are therefore now subject to the General Prohibition and the FSMA authorisation regime discussed earlier.

Interim permission regime

To facilitate transition to the New Regime, the UK Government introduced an interim permission regime.

Firms with existing FCA or PRA authorisations were not automatically given interim permission. If such firms notified the FCA of their wish to obtain an interim permission prior to 31 March 2014, and supplied the required information in the required form by the deadline, they received an interim variation of permission to continue to carry on consumer credit activities alongside their other regulated activities. TSB Bank has obtained such interim permission.

The FCA have indicated an application period of three months (1 January 2015 to 31 March 2015) during which TSB will be required to apply for authorisation or variation of existing permissions for its consumer credit activities.

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) which provided that, subject to exemptions, loans not exceeding €75,000 must be regulated. This directive repealed and replaced the first consumer credit directive and required Member States to implement the directive by measures in force by 11 June 2010. Loan agreements secured by land mortgage are exempted from the consumer credit directives.

Mortgage lending

The FSMA regulates mortgage credit within the definition of “regulated mortgage contract” and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (i) the credit agreement is one under which the lender provides credit to an individual or to trustees; (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the FSMA as to authorisation or financial promotions are contravened, then the relevant regulated mortgage contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The FCA's Mortgages and Home Finance: Conduct of Business sourcebook (**"MCOB"**) sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorised firm (such as TSB Bank) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

In March 2009, the Turner Review, "A regulatory response to the global banking crisis", was published and set out a detailed analysis of how the global financial crisis began along with a number of recommendations for future reforms and proposals for consultation. As part of the Turner Review, the FSA published a discussion paper outlining proposals for reform of the mortgage market.

Subsequently, the FSA commenced a wide ranging consultation on mortgage lending: the FSA's Mortgage Market Review (**"MMR"**). The MMR concluded with the publication of final rules by the FSA on 25 October 2012 that amended the existing conduct rules for mortgage lending in the FCA Handbook; the new rules came into effect on 26 April 2014.

Principal changes centre upon responsible lending and include more thorough verification of borrowers' income, assessment of affordability of interest-only loans on a capital and interest basis, application of interest rate stress tests, and changes to criteria lenders should take into account when making customer/underwriting assessments.

Senior Managers Regime and Remuneration

Following the financial crisis, the Parliamentary Commission on Banking Standards (**"PCBS"**) was established to consider the professional standards and culture of the UK banking sector and report on lessons to be learned.

The PCBS found that a lack of accountability contributed to the mismanagement of key risks, and recommendations were made to improve individual accountability in the banking sector. The findings were incorporated into the Financial Services (Banking Reform) Act 2013. The PRA and FCA have now released a joint consultation (FCA CP14/13 and PRA CP14/14) with their specific proposals for creating a new regulatory framework to encourage individuals to take greater responsibility and to make it easier for both firms and regulators to hold individuals to account.

The United Kingdom's regulatory approach to remuneration derives from the requirements of the Principles and Standards on compensation of the Financial Stability Board (**"FSB"**) and subsequent European legislation including CRD IV, on which much of the Remuneration Code is based. Weaknesses in the alignment between risk and reward were also highlighted in the final report of the PCBS 'Changing Banking For Good' published in June 2013

The PRA and FCA are currently consulting on proposed changes to the Remuneration Code which will affect all banks and building societies. The proposals complement those in the parallel consultation on 'Strengthening Accountability in Banking: a New Regulatory Framework for Individuals'.

European regulatory landscape

The Directive on credit agreements relating to residential property, also commonly known as the Mortgage Credit Directive (**"MCD"**) came into effect on 20 March 2014. The MCD was to some extent modelled on the second directive on consumer credit and requires, among other things, standard pre-contractual information, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and a right of the borrower to make early repayment.

Member States have two years to implement the MCD into national law. The FCA has indicated that it intends to publish a consultation on the implementation of the MCD "mid-year" in 2014. Until the UK implementing legislation is published, it is not certain what effect the adoption and implementation of the MCD will have on TSB's mortgage businesses.

Financial Services Compensation Scheme and the EU Deposit Guarantee Scheme Directive

FSCS

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example, for claims against firms declared in default on or after 1 January 2010 (31 December 2010 for deposits): (i) for deposits, 100 per cent. of the first £85,000; (ii) for mortgage advice and arranging, 100 per cent. of the first £50,000; and (iii) for insurance, 90 per cent. of the claim with no upper limit (except that compulsory insurance is protected in full). The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. Directive 2009/14/EC, amending Directive 94/19/EC on deposit guarantee schemes, requires Member States to set the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000.

EU DGSD

The European Commission published a legislative proposal to revise the EU DGSD in July 2010. The main changes proposed included a tightened definition of deposits, a risk based approach to contributions from firms, a requirement that the deposit guarantee scheme repay customers within one week and that banks must be able to provide information on the aggregated deposits of a depositor at any time. The EU DGSD was adopted by the Council of the European Union on 3 March 2010 and by the European Parliament on 15 April 2014. The EU DGSD came into force on 3 July 2014 following publication in the Official Journal and Member States will have one year from this date to implement it into national law.

An Impact Assessment conducted by the European Commission indicates that the revisions will impose greater administrative and financial burdens on participating firms. Direct cost increases will result from increased contributions to the schemes and greater indirect costs are likely to arise from necessary changes to procedures and IT systems. Until the UK implementing legislation is published, the specific implications for TSB's business arising from the adoption and implementation of the EU DGSD are uncertain.

Competition regulation

TSB is subject to supervision and oversight by a number of competition regulators, including the CMA, sectoral regulators and the European Commission. The FCA and the Payment Systems Regulator will, in the future, assume concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively. These regulatory bodies have, or are anticipated to have, broad powers to launch market studies or conduct investigations.

The CMA is currently conducting market studies in respect of PCAs and small and medium sized enterprise banking, and the FCA has launched studies of general insurance add-ons and retirement income and cash savings plans. While the outcome of such studies, and the scope any future studies, is inherently uncertain, they may ultimately result in the application of behavioural and/or structural remedies by the regulator.

Proposed legislation

Structural and other reforms

On 14 June 2012, H.M. Treasury issued a White Paper entitled *"Banking reform: delivering stability and supporting a sustainable economy"* on how the UK Government intends to implement the measures recommended by Sir John Vickers' Independent Commission on Banking final report of 12 September 2011. Broadly, the White Paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector.

On 19 June 2013, the Parliamentary Commission on Banking Standards published its final report, entitled *"Changing banking for good"*. This was followed by the publication of the UK Government's response on 8 July 2013, accepting the overall conclusions of the report and all of its principal recommendations. Among other things, this included proposals for a new banking standards regime governing the conduct of bank staff, the introduction of a criminal offence for reckless misconduct by senior bank staff, and steps to improve competition in the banking sector.

The UK Government published the Banking Reform Bill in October 2012 but, following the Parliamentary Commission on Banking Standards' final report published in June 2013, amendments to the Banking Reform Bill were tabled. The Banking Reform Bill received Royal Assent as the Financial Services (Banking Reform) Act 2013 on 18 December 2013. The UK Government intends for all relevant secondary legislation to be completed by May 2015 and banks will be expected to have implemented reforms by 2019 at the latest. For more information, see *"Risk Factors – TSB is subject to the potential impacts of UK and European banking reform initiatives"*.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Directors of TSB Banking Group are as follows:

Name	**Position**	**Principal activities outside the TSB Group**
Will Samuel	Chairman	Chairman, Howden Joinery Group plc Chairman, Ecclesiastical Insurance Group plc Chairman, Ecclesiastical Insurance Office plc
Paul Pester	Chief Executive Officer	Advisory Board Member, the Financial Services Forum
Darren Pope	Chief Financial Officer	None
Norval Bryson	Non-executive Director	Director and Deputy Chairman, Scottish Widows Group Limited Deputy Chairman, St Columba's Hospice Trustee, Church of Scotland

Name	Position	Principal activities outside the TSB Group
		Investors Trust
Mark Fisher	Non-executive Director	None
Godfrey Robson	Non-executive Director	None
Sandra Dawson	Senior Independent Director	Director, Winton Capital Group Limited Director, DRS plc Director and Trustee, Institute for Government Chairman of Executive Committee and Trustee, Social Science Research Council USA Trustee, American University of Sharjah Member, UK-India Round Table
Philip Augar	Independent Non-executive Director	Non-Executive Member, Public Interest Committee, KPMG Director, Philip Augar and Associates Inc.
Alexandra Kinney Pritchard	Independent Non-executive Director	Director, MBNA Ltd Director, CPA Audit Corporate Services Limited Director, Gradient Finance Ltd
Stuart Sinclair	Independent Non-executive Director	Director, Prudential Health Holdings Limited Director, Prudential Protect Limited Director, Provident Financial plc Director, Swinton Group Limited Director, QBE Insurance (Europe) Limited
Polly Williams	Independent Non-executive Director	Chairman, National Counties Building Society Director, Counties Home Loan Management Limited Director, Worldspreads Limited (in special administration) Director, Scotiabank Ireland Limited

Name	Position	Principal activities outside the TSB Group
		Director, Daiwa Capital Markets Europe Limited Trustee, Guide Dogs for the Blind

The Issuer's current senior management (**"Senior Management"**) in addition to the Executive Directors listed above, is as follows:

Name	Position	Principal activities outside the TSB Group
Ashley Machin	Chief Digital Officer	None
Neeta Atkar	Chief Risk Officer	None
Susan Crichton	General Counsel and Company Secretary	None
Ian Firth	Treasurer	None
Nigel Gilbert	Chief Marketing and Communications Officer	Member, Incorporated Society of British Advertisers (ISBA) Council
Rosemary Hilary	Chief Audit Officer	Member of the Board of Trustees, Shelter
Rachel Lock	Human Resources Director	None
Peter Navin	Branch and Business Banking Director	Director, Bank of Scotland Foundation
Helen Rose	Chief Operating Officer	None
Jatin Patel	Product Director	Director, Mistel Limited

Save as set out below in relation to Norval Bryson, there are no potential conflicts of interest between any duties owed by the Directors or Senior Management to the Issuer and their private interests or other duties.

Norval Bryson is deputy chairman and a non-executive director of Scottish Widows Group Limited, the holding company of various life, pensions and insurance companies which are potential competitors of TSB in the life market. Norval Bryson is a non-executive director of Lloyds Bank General Insurance Limited (**"LBGI"**), a subsidiary of Scottish Widows Group Limited, which underwrites the home insurance product distributed by TSB under a General Insurance Distribution Agreement entered into by TSB and Lloyds Bank Insurance Services Limited (**"LBIS"**) on 9 June 2014 whereby LBIS agreed to administer a home insurance product underwritten by LBGI and entered into prior to 12 May 2013 with customers who were TSB customers as at 12 May 2013.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Issuer or another member of the TSB Group on, or within the two years immediately preceding, the date of this Prospectus and are or may be material.

Business Transfer Agreement

TSB Bank, Lloyds Bank and Cheltenham & Gloucester plc entered into the Business Transfer Agreement on 13 March 2013 (the **"Business Transfer Agreement"**). Pursuant to the Business Transfer Agreement, Lloyds Bank agreed to transfer certain assets and liabilities forming part of its banking business to TSB Bank, such transfer to be effected by means of a banking business transfer scheme pursuant to Part VII of FSMA (the **"Scheme"**). Under the terms of the Business Transfer Agreement, the parties agreed that certain historical liabilities in relation to breaches of law and regulation would be excluded from the business transferred to TSB Bank by the Scheme.

Relationship Agreement

On 9 June 2014, the Issuer and Lloyds Banking Group plc entered into the Relationship Agreement (the **"Relationship Agreement"**) which regulates (in part) the degree of control that Lloyds Banking Group plc and its associates may exercise over the management and business of the Issuer. The principal purpose of the Relationship Agreement is to ensure that the Issuer is capable at all times of carrying on its business independently of Lloyds Banking Group plc and its associates. The Relationship Agreement will continue until the earlier of (i) the Ordinary Shares ceasing to be admitted to listing on the Official List and (ii) Lloyds Banking Group plc, together with its associates, ceasing to own or control (directly or indirectly) 20 per cent. or more of the voting share capital of the Issuer.

Under the Relationship Agreement, Lloyds Banking Group plc has undertaken that, subject to certain limited exceptions, it will, and will procure that its associates will, among other things:

1. not take any action or omit to take any action which inhibits any member of the TSB Group from carrying on its business independently;

2. conduct all transactions and arrangements with any member of the TSB Group at arm’s length and on normal commercial terms;

3. not take any action (or omit to take any action) to prejudice the Issuer’s status as a premium listed company or which would have the effect of preventing the Issuer from complying with its obligations under the Listing Rules;

4. not exercise any of its voting rights in a manner which is in breach of any competition or anti-trust legislation or regulation applicable to it; and

5. not exercise any of its voting or other rights to propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Lloyds Banking Group plc has also undertaken that, subject to certain exceptions, if it or its associates intend to vote against the Board’s recommendation in respect of any resolution at a general meeting of the Issuer, it will give the Board notice of such intention not less than five business days prior to the scheduled date of the relevant general meeting, and if it fails to give such notice when required to do so, it shall only be entitled:

1. not to vote at all on the relevant resolution; or

2. to exercise all of the voting rights attached to their Ordinary Shares:

    a. in accordance with the Board’s recommendation on the relevant resolution to all shareholders; or

    b. for and against the relevant resolution in the same proportions as the voting rights attached to Ordinary Shares held by all other shareholders are so exercised.

Lloyds Banking Group plc has also undertaken that, subject to certain exceptions, it will not exercise its voting rights in order to:

1. requisition, or support a requisition for, a general meeting of the Issuer;

2. put forward a resolution, an item on the agenda, or an amendment to a resolution or an agenda item, at the Annual General Meeting of the Issuer; or

3. require the Issuer to circulate a written statement to shareholders.

The Relationship Agreement provides that for as long as Lloyds Banking Group plc (together with its associates) holds at least 20 per cent. of the voting share capital of the Issuer, it will be entitled to appoint one Non-Executive Director to the Board, which Non-Executive Director may not be an employee or a director of any Lloyds Banking Group company but may be a non-executive director of an associate of Lloyds Banking Group plc.

The Issuer has undertaken to Lloyds Banking Group plc to use reasonable endeavours to provide such assistance to it as it may reasonably request in connection with the obligation to divest its interest in the TSB Group, and Lloyds Banking Group plc has agreed to reimburse the TSB Group for any out-of-pocket costs and expenses reasonably incurred by the TSB Group in the course of providing such assistance.

Separation Agreement

The Issuer, TSB Bank and Lloyds Bank entered into the Separation Agreement on 9 June 2014 (the **"Separation Agreement"**). The Separation Agreement governs the separation of the TSB Bank Group from Lloyds Banking Group and certain aspects of the relationship between the TSB Group and Lloyds Banking Group including (amongst other things) the allocation of certain pre-Admission liabilities, including liability for breach of law and regulation and of customer terms and conditions.

Under the terms of the Separation Agreement, Lloyds Bank has agreed, subject to certain limitations, to provide each member of the TSB Group with a range of indemnity protection in respect of historical, pre-Admission issues (including issues in relation to the period between 9 September 2013, when TSB launched as a stand-alone bank and 25 June 2014). This protection includes a broad and, save in certain limited respects, uncapped indemnity in respect of losses arising from pre-Admission acts or omissions that constitute breaches of law and regulation relating to customer agreements or the relevant security interest securing liability under such agreements (the **"Conduct Indemnity"**).

Tax Separation Deed

The Issuer, TSB Bank and Lloyds Bank entered into a Tax Separation Deed on 9 June 2014 which regulates certain aspects of the mechanics of the separation of the members of the TSB Group from any tax groups to which they are party with other Lloyds Banking Group companies and governs co-operation between the TSB Group companies and Lloyds Banking Group companies in respect of tax matters.

Transitional Services Agreement

TSB Bank and Lloyds Bank entered into the TSA on 9 June 2014. Under the TSA, Lloyds Bank provides certain IT and operational services to TSB, on a transitional basis, for a term of up to the end of 31 December 2016. Some of the TSA services are planned to be exited and migrated either to TSB or an alternative service provider; a number of the services (including the IT services) will continue to be provided by Lloyds Bank to TSB on and from 1 January 2017 under the LTSA.

The TSA contains provisions designed to support the exit of services in a termination scenario. The TSA identifies at a high level the respective responsibilities of each of Lloyds Bank and TSB Bank in relation to exit, and provides a mechanism for the parties to define and agree their respective obligations in detailed technical and commercial exit plans during the 12-month period following Admission. Due to the criticality of the IT services, Lloyds Bank and TSB Bank have defined in advance some specific exit options for TSB, namely: (i) the creation of a cloned and carved-out set of IT systems which would be transferred to a third party provider to operate on TSB's behalf (the **"carve-out option"**); (ii) the migration of TSB's data to the IT systems of a third party service provider; or (iii) the migration of TSB's data to the IT systems of another financial institution with whom TSB enters into a merger or acquisition. If TSB Bank were to choose the carve-out option, Lloyds Bank would assume the cost of creating and transferring the clone, subject to a £50 million contribution from TSB. If TSB chose to exit the IT services via one of the migration options, Lloyds Bank has agreed to make a £450 million contribution to TSB's costs of undertaking the migration, and TSB may elect to spend some or all of the £450 million obtaining exit assistance services from Lloyds Bank. With the exception of the carve-out option, Lloyds Bank has agreed to support the exit of the services (including both IT and non-IT services) on a time and materials at cost basis.

Lloyds Bank is committed under the TSA to providing services to TSB until they have been successfully exited to successor service providers, to incentivise the timely completion of exit, a charges ratchet mechanism applies for any service provision beyond the agreed expiry of each service.

Lloyds Bank is required to maintain reasonable technical and organisation controls to guard against unauthorised/unlawful access to TSB's data by Lloyds Bank personnel, including systems-level measures where appropriate. Lloyds Bank undertakes that it has and will continue to have in place up-to-date business continuity and disaster recovery plans. Lloyds Bank agrees to test the business continuity plans and provide TSB Bank with written results of the testing and details of the steps taken to remedy any shortcomings or failures identified.

Long Term Services Agreement

TSB Bank and Lloyds Bank entered into the LTSA on 9 June 2014. Under the LTSA, Lloyds Bank provides certain IT and operational services on and from 1 January 2017 to TSB for a term of up to seven and a half years.

The LTSA contains provisions designed to support the exit of services in a termination scenario. As exit is anticipated to take at least three years (and potentially longer) to complete, the exit phase is therefore planned to commence no later than three years before the end of the LTSA term, or earlier if either party exercises its termination rights (as outlined above). The LTSA outlines at a high level the respective responsibilities of each of TSB Bank and Lloyds Bank in relation to exit and provides a mechanism for the parties to continue to define and agree their respective obligations in detailed technical and commercial exit plans during the 12 months following Admission. Due to the criticality of the IT services, Lloyds Bank and TSB Bank have defined in advance some specific exit options for TSB, namely: (i) the creation of a cloned and carved-out set of IT systems which would be transferred to a third party provider to operate on TSB's behalf (the **"carve-out option"**); (ii) the migration of TSB's data to the IT systems of a third party service provider; or (iii) the migration of TSB's data to the IT systems of another financial institution with whom TSB enters into a merger or acquisition. If TSB Bank were to choose the carve-out option, Lloyds Bank would assume the cost of creating and transferring the clone, subject to a £50 million contribution from TSB. If TSB chose to exit the IT services via one of the migration options, Lloyds Bank has agreed to make a £450 million contribution to TSB's costs of undertaking the migration, and TSB may elect to spend some or all of the £450 million obtaining exit assistance services from Lloyds Bank. With the exception of the carve-out option, Lloyds Bank has agreed to support the exit of the services (including both IT services and non-IT services) on a time and materials at cost basis.

As Lloyds Bank is committed under the LTSA to providing services to TSB until they have successfully exited to successor service providers, to incentivise the timely completion of exit, a charges ratchet mechanism applies for any service provision beyond the agreed expiry date of each service. The carve-out option for exiting the IT services is dependent in part on each of Lloyds Bank and TSB entering into a separate agreement with the successor operator for build services (in the case of Lloyds Bank's agreement) and for run-state services (in the case of TSB's agreement). Accordingly, an additional pricing adjustment mechanism applies to disincentivise delay by either party in concluding its agreement with the successor operators by one and a half years before the end of the LTSA term.

Lloyds Bank is required to maintain reasonable technical and organisational controls to guard against unauthorised/unlawful access to TSB's data by Lloyds Bank's personnel including systems-level measures where appropriate. Lloyds Bank undertakes that it has and will continue to have in place up-to-date business continuity and disaster recovery plans. Lloyds Bank agrees to test the business continuity plans and provide TSB Bank the written results of the testing and details of the steps taken to remedy any shortcomings or failings identified.

Long Term Services Agreement & Transitional Services Agreement charges

TSB will pay a core service charge monthly in arrears that includes an agreed baseline of service volumes set by reference to the balances and assumed customer behaviours in TSB's agreed 2014 to 2017 business plan. The agreed TSA core service charge is £92 million per year. The agreed LTSA core service charge is £187 million per year. These charges are inclusive of VAT and will be adjusted annually to reflect inflation calculated using the UK RPI. The TSA core service charge is expected to be £95 million in 2014 (including an adjustment to the £92 million base charge for pass-through costs), and, assuming annual inflation of three per cent., £98 million in 2015 and £100 million in 2016. Assuming the same rate of inflation, the LTSA core service charge is expected to be £204 million in 2017.

Mortgage Intermediary Platform Build Agreement

The Issuer, TSB Bank and Lloyds Bank entered into the Mortgage Intermediary Platform Build Agreement on 9 June 2014 (the **"Mortgage Intermediary Platform Build Agreement"**), under which Lloyds Bank has agreed to complete the build of a mortgage intermediary platform, which Lloyds Bank will use to provide certain IT services to TSB under the TSA and the LTSA.

Mortgage Enhancement Agreements

The Mortgage Enhancement Structure has been designed in order to meet Lloyds Banking Group's obligations under its State aid commitments, as amended in this respect following the September 2013 recommendations of the OFT in relation to TSB's competitiveness and financial strength. In particular, it was a requirement of Lloyds Banking Group's State aid commitments that TSB would be strengthened financially through the transfer of the economic benefit of a portfolio of residential mortgages, with the aim of enhancing TSB's profitability by approximately £220 million in aggregate in the four years from (and including) 2014 (the **"Profit Objective"**). Lloyds Banking Group is not required to guarantee or underwrite, and has not guaranteed or underwritten, the profit streams contemplated in the Profit Objective.

Mortgage Sale Agreement

On 4 March 2014, TSB Bank and Bank of Scotland entered into the Mortgage Sale Agreement in relation to the equitable assignment (which took effect from 28 February 2014) of the Additional Mortgages from Bank of Scotland to TSB Bank (the **"Mortgage Sale Agreement"**). Pursuant to the Mortgage Sale Agreement, TSB Bank purchased Bank of Scotland's equitable interest in the Additional Mortgages for a consideration of approximately £3.4 billion (such sum being equal to the fair value of the Additional Mortgages at the time of transfer).

Under the Mortgage Sale Agreement, TSB Bank may require Bank of Scotland to repurchase the equitable interest in the Additional Mortgages at any time at fair value.

Additionally, Bank of Scotland may require TSB Bank to sell its equitable interest in the Additional Mortgages back to Bank of Scotland in certain circumstances at fair value (the "**Call Option**"). In order to determine the triggers for such Call Option, the Mortgage Sale Agreement provides for a concept of deemed profit earned by TSB Bank from the Additional Mortgages ("**Deemed Profit**"), calculated on the basis set out in the Mortgage Sale Agreement (the "**Deemed Profit Calculation**") rather than a calculation of actual profit (which would be impacted by TSB's actions outside the scope of the terms of the Mortgage Enhancement structure). Deemed Profit is designed as a proxy for the profit that TSB Bank would have achieved if the Mortgage Enhancement structure was isolated from the actions of TSB and the risks in TSB's business not contemplated by the Mortgage Sale Agreement or the Mortgage Servicing Agreement, and includes, amongst other things, adjustments for an assumed total funding cost representing TSB's expectations as to the proportion of funding to be provided by Lloyds Bank pursuant to the RMBS Funding Facility and by TSB from sources other than the RMBS Funding Facility. Pursuant to the terms of the Mortgage Sale Agreement, Bank of Scotland may exercise its Call Option, provided that:

- TSB Bank has made a Deemed Profit of at least £230 million (the "**Deemed Profit Trigger**"); and
- either:
  - (i) at least £30 million of such Deemed Profit has been or was made in 2017 (the "**2017 Deemed Profit Trigger**"); or
  - (ii) the Call Option is exercised on or after 31 December 2017.

The Call Option cannot be exercised in circumstances where the effect on TSB Bank of the repurchase by Bank of Scotland at fair value would result in the Deemed Profit falling below the Deemed Profit Trigger or (where applicable) the Deemed Profit in 2017 falling below the 2017 Deemed Profit Trigger. The Deemed Profit Calculation includes, among other things, the cost of unwinding the hedging associated with the transaction.

Although, therefore, there is no guarantee that the Profit Objective will be achieved at the time of any exercise by Bank of Scotland of the Call Option, the Deemed Profit Trigger is higher than the Profit Objective (giving TSB Bank potential upside).

Mortgage Servicing Agreement

On 4 March 2014, TSB Bank and Bank of Scotland entered into the Mortgage Servicing Agreement in relation to the servicing of the Additional Mortgages (the **"Mortgage Servicing Agreement"**). Pursuant to the Mortgage Servicing Agreement, Bank of Scotland agreed to service the Additional Mortgages, including all aspects of the customer relationship, in return for the payment by TSB Bank, monthly in arrears, of a servicing fee equivalent to 0.12 per cent. per annum of the outstanding balance of the Additional Mortgages (subject to a minimum monthly fee of £175,000 from 1 July 2018).

RMBS Funding Facility Agreements

On 20 May 2014, TSB Bank and a special purpose vehicle established by TSB Bank (**"TSB RMBS SPV"**) and others entered into the RMBS Mortgage Sale Agreement, and the same parties, together with Lloyds Bank and others entered into the Variable Funding Note Issuance Deed (**"VFNID"**) and other ancillary documents in relation to the RMBS Funding Facility.

Under the terms of the VFNID, senior funding is raised by TSB RMBS SPV through a combination of drawings on a variable funding note issued by TSB RMBS SPV to Lloyds Bank (the **"Lloyds VFN"**) and TSB Bank. Subject to certain conditions (including the non-occurrence of specified "term out" events), up until 17 December 2018, TSB RMBS SPV has the option to repay and redraw the Lloyds VFN (in whole or in part).

General Insurance Distribution Agreement

On 9 June 2014, LBIS and TSB Bank entered into a general insurance distribution agreement (the **"GIDA"**). Pursuant to the GIDA, and with effect from 12 May 2013, LBIS agreed to administer a home insurance product underwritten by LBGI and entered into prior to 12 May 2013 with customers who were TSB customers as at 12 May 2013. Under the GIDA, LBIS and TSB Bank have also agreed that TSB Bank shall promote and sell to TSB banking customers on or after 12 May 2013 the same insurance product via the TSB branches, in this case TSB-branded underwritten by LBGI and mediated and administered by LBIS.

UNITED KINGDOM TAXATION

The following is a summary of the Issuer's understanding of current law and published practice in the United Kingdom relating to certain aspects of the taxation treatment of the payment of interest on the Notes as at the date of this Prospectus and is subject to any change in law or practice that may occur after such date (possibly with retrospective effect). It does not purport to be a complete analysis of all United Kingdom tax considerations relating to the Notes. It does not necessarily apply where income is deemed for tax purposes to be the income of any other person. It relates only to the position of persons who are the absolute beneficial owners of the Notes. Some aspects do not apply to certain classes of taxpayer (such as collective investment schemes, financial traders or dealers or persons who are connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances. Prospective Noteholders who may be subject to tax in jurisdictions other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

UNITED KINGDOM TAXATION

The comments below are based on current United Kingdom tax law as applied in England and Wales and H.M. Revenue & Customs practice (which may not be binding on H.M. Revenue & Customs). They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes and may not apply to certain classes of persons (such as dealers) to whom special rules may apply. Any Noteholders who are in doubt as to their tax position or may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

Taxation of Interest

Pursuant to the Taxation of Regulatory Capital Securities Regulations 2013 (the **"Regulations"**) payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax under section 874 of the Income Tax Act 2007 (the **"Act"**) provided that such Notes qualify, or have qualified, as Tier 2 instruments under Article 63 of the Capital Requirements Regulation (EU Regulation No 575/2013) (the **"CRR"**) and such Notes form, or formed, a component of Tier 2 capital for the purposes of the CRR and provided further that there are not arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the Regulations.

Interest with a United Kingdom source may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction for or on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable or (in the case of companies) such persons carry on a trade in the United Kingdom through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable, in which case United Kingdom tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom for tax purposes may be able to recover all or part of the tax deducted under an applicable double taxation treaty.

Noteholders should recognise that the provisions relating to additional amounts referred to in Condition 9 (*Taxation*) would not apply if H.M. Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, under such circumstances, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Information Reporting

H.M. Revenue & Customs has powers to obtain information and documents relating to securities in certain circumstances. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes and payments of interest, payments treated as interest and other payments derived from the Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by (or via) whom payments derived from the Notes are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by H.M. Revenue & Customs may be exchanged with tax authorities in other countries.

UK Stamp Duty and Stamp Duty Reserve Tax

No UK stamp duty or stamp duty reserve tax is payable on the issue or transfer of a Note, or on its redemption.

EU SAVINGS DIRECTIVE

Under the EU Savings Directive, each Member State of the European Union is required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014 the Council of the European Union adopted an EU Council Directive amending and broadening the scope of the requirements described above. The new requirements, once applied, will cover new types of savings income and expand the range of payments covered by the Directive, in particular to include additional types of income payable on certain securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union. Member States have until 1 January 2016 to adopt national legislation necessary to comply with the Directive and must apply the new requirements from 1 January 2017.

For a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The changes referred to above, when implemented, will broaden the types of payment subject to withholding in those Member States which still operate a withholding system. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

THE PROPOSED FINANCIAL TRANSACTION TAX ("FTT")

On 14 February 2013, the European Commission published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **"participating Member States"**).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued on 6 May 2014 by 10 of the 11 participating Member States indicated an intention to implement the FTT progressively such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. Individual Member States are however free to include other products for taxation in the initial implementation, in order to maintain existing taxes.

The FTT proposal remains subject to negotiation between the participating Member States and may be the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

GENERAL INFORMATION

(1) The creation and issue of the Notes has been authorised by a resolution of the Board dated 26 March 2014.

(2) Application has been made to the UK Listing Authority for the admission of the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Market. Such listing and admission to trading is expected to occur on or about 13 October 2014. The Issuer estimates that the total expenses related to the admission to trading of the Notes will be approximately £4,200.

(3) The Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear. The ISIN for the Notes is XS1061206337 and the Common Code is 106120633.

(4) The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

(5) There has been no significant change in the financial or trading position of the Issuer since 30 June 2014. There has been no material adverse change in the prospects of the Issuer since its date of incorporation on 31 January 2014.

(6) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have, or have had during such period a significant effect on the financial position or profitability of the Issuer or the TSB Group.

(7) For the period of 12 months starting on the date on which the Prospectus is made available to the public, copies of the following documents will be available for inspection during usual business hours on any weekday at the specified office of the Principal Paying Agent:

   (a) this Prospectus (together with any supplements to this Prospectus);

   (b) the Memorandum and Articles of Association of the Issuer;

   (c) the Trust Deed and the Agency Agreement; and

   (d) the most recent annual financial statements of the Issuer from time to time.

(8) The auditors of the Issuer are PricewaterhouseCoopers LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales. PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

(9) For the investors in the Notes, the Issue Price is 99.493 per cent. and the yield for the Fixed Rate Interest Period (as defined in the Conditions) is 5.839 per cent., calculated on an annual basis. The yield is calculated at the Issue Date. It is not an indication of future yield.

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