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27th May 2014

Announcement of Intention to Float TSB Banking Group plc

As part of its divestment mandated by the European Commission (the "**EC**"), Lloyds Banking Group plc ("**Lloyds**") today announces its intention to proceed with an initial public offering of TSB Banking Group plc ("**TSB**").

TSB occupies a unique market position in British retail banking. TSB is a UK-only challenger brand with over 200 years of heritage, the capabilities of a large established player, including a comprehensive range of retail banking products and multi-channel and national distribution model, and the high growth potential of a challenger bank.

António Horta-Osório, Group Chief Executive of Lloyds Banking Group, said

"The decision to proceed with an initial public offering of TSB is an important further step for the Group as we act to meet our commitments to the European Commission. TSB has a national network of branches, a strong balance sheet and significant economic protection against legacy issues. It is already operating on the UK high street and is proving to be a strong and effective challenger, further enhancing competition in the UK banking sector."

Offer Highlights

- Lloyds intends to sell approximately 25% of the existing Ordinary Shares in TSB as part of its divestment mandated by the EC. Lloyds is required to sell down its remaining stake before 31 December 2015
- TSB will list on the premium segment of the Official List and the main market of the London Stock Exchange

- The Offer is expected to take place next month, with the publication of the Prospectus mid-June

- The Offer will be available to institutional investors in qualifying jurisdictions (in the UK and elsewhere outside the United States under Regulation S and to QIBs in the United States in reliance on Rule 144a) and to intermediaries in the UK, the Channel Islands and the Isle of Man who will facilitate the participation of their retail investor clients in those same jurisdictions (the "**Intermediaries Offer**"). The terms of the Intermediaries Offer will entitle each retail investor to receive one free share for every 20 Shares acquired (up to £2,000) and held for a continuous period of one year after IPO, subject to certain terms and conditions which will be set out in the Prospectus

- In respect of its residual holding of Ordinary Shares in TSB following the IPO, Lloyds has committed to a 90 day lock up arrangement following Admission

TSB Highlights

- TSB has a strong and stable customer base of 4.5 million retail customers, a comprehensive range of retail banking products and a multi-channel, national distribution model, including 631 branches, making it the seventh largest retail banking group in the UK by branch network

- TSB has a comparatively low-risk balance sheet and financial structure:
  - TSB's balance sheet comprises primarily historically low-loss UK retail mortgages, funded by strong and stable customer deposits
  - TSB benefits from significant economic protection against legacy issues, including historical conduct-related claims and losses and historical employment and pension legacy issues
  - Services agreements with Lloyds provide a comprehensive range of IT and banking operations services which utilise Lloyds' proven operational infrastructure
  - TSB has a strong capital base, a robust liquidity position and a 21.6% CRD IV fully loaded core equity tier 1 capital ratio (as at 31 March 2014 on a pro forma basis). TSB's illustrative core equity tier 1 capital ratio on a fully IRB basis is c.17%. TSB has the strongest capital position of the major UK high street banks[1]

- TSB has a dedicated management team, some of whom have led the development of the bank since 2011, including its launch on high streets across Britain last September. The team bring a unique mix of experience from across larger banks, challenger banks and regulatory bodies

- TSB expects to grow by building upon its existing strengths to:
  - Grow its Personal Current Account ("**PCA**") market share
  - Accelerate asset growth by re-entering the intermediary mortgage distribution channel in early 2015
  - Deploy its considerable digital banking capability to reduce customer servicing costs, deepen existing customer relationships and create new customer relationships

The TSB Board intends, through the delivery of its strategic objectives, to grow TSB's franchise balance sheet by 40 to 50 per cent. over the next five years and over that period (based on market expectations as to interest rates, regulation and the competitive environment) to move towards double digit return on equity (whilst continuing to grow). TSB expects to pay an inaugural dividend in respect of the 2017 financial year.

Paul Pester, Chief Executive Officer of TSB Banking Group plc, said:

"Today is a significant milestone on our journey to create a major new competitive force in UK banking. Everyone involved in the creation of TSB has worked tirelessly to create something truly unique and to create a bank that brings more consumer choice and competition to the market. The TSB we see today is unlike any other UK retail bank: we have the mindset and growth potential of a challenger but with the scale and capabilities of an established player."

"As we prepare for life as an independent, listed entity we are aiming to deliver strong, steady and sustainable growth, over the long-term. Our straightforward and simple approach to banking is designed to deliver the kind of bank people tell us they want: every penny our customers deposit with us is used to support mortgages and loans for other TSB customers. This is what we mean by local banking for Britain."

TSB Key Strengths

(1) TSB has a strong and stable customer base, has developed a strong, values-led challenger brand position and is committed to offering a differentiated customer experience

- TSB has a strong and stable customer base
- The TSB Board believes that TSB's values-led challenger brand will be important in enabling TSB to differentiate itself from the established banks and gain market share
- TSB aims to deliver a differentiated customer experience and drive reductions in customer acquisition and retention costs as well as enabling further growth
- Through mass appeal new products, such as the launch of a new PCA called the Classic Plus account in March 2014, TSB intends to introduce the TSB brand to a wide range of potential customers in the UK

(2) TSB has comprehensive distribution and product capability

- TSB has a multi-channel and national distribution model with a comprehensive service and sales capability
    - o TSB's network of 631 branches equates to approximately 6% of the retail bank branches in the UK and is complemented by four UK-based telephony contact centres
    - o TSB's service and sales capability has the infrastructure and many of the capabilities of a large established provider including internet and mobile banking capability
- TSB has a robust operating platform and operating model
    - o TSB's operating model is based on the equivalent Lloyds processes and procedures
    - o TSB's operating platform is underpinned by a comprehensive range of IT and banking operations services powered by the proven operational infrastructure of

Lloyds Banking Group under the Transitional Services Agreement ("**TSA**") and a Long Term Services Agreement ("**LTSA**")

- The combination of TSB's high quality distribution channels and infrastructure supports its ability to offer a smooth and efficient service and sales process

(3) TSB is comparatively low-risk

- TSB has a comparatively low-risk balance sheet and financial structure
    - TSB has a straightforward balance sheet consisting, as at 31 March 2014, of £23.3 billion of TSB branded customer deposits and £19.7 billion of TSB branded customer assets. As at the same date, TSB also held the beneficial title to an additional portfolio of non-TSB branded mortgages of £3.3 billion (the "**Additional Mortgages**")
    - TSB has a strong capital base and robust liquidity with a core equity tier 1 capital ratio of 21.6%, and leverage ratio of 5.6% as at 31 March 2014 (on a pro forma basis). TSB's illustrative core equity tier 1 capital ratio on a fully IRB basis is c.17%
- TSB benefits from significant economic protection against legacy issues, including an indemnity from Lloyds against historical conduct-related losses
- TSB's operating model will benefit from on-going investment from Lloyds at no extra cost above the core service charge payable by TSB under the TSA and LTSA

(4) TSB has structural capacity for growth

- With approximately 6% of the retail bank branches in the UK against approximately 4.2% of the PCA stock, TSB's PCA market share of stock is not reflective of its branch footprint
- TSB also does not currently have access to the intermediary mortgage distribution channel but is expected to from Q1 2015
- TSB's operating platform is scalable and able to support growth, being based on that of Lloyds Banking Group, the UK's largest retail banking group

(5) There is significant potential for TSB to generate substantially improved returns in a rising interest rate environment

- A high proportion of TSB's customer mortgage assets are capped standard variable rate ("**SVR**") products at 2% above the Bank of England base rate. This is considerably lower than the average rate for non-rate-guaranteed products in the market. TSB believes customers will look over time, and as interest rates rise, to re-mortgage from capped SVR products onto higher margin mortgage products

(6) TSB has a strong and experienced management team

- TSB has been developed since 2011 by a dedicated management team who have strength of experience across larger banks, challenger banks and regulatory bodies

- TSB's executive directors and senior management team bring a wealth of experience (with both established and challenger banks) and expertise to the management and operations of TSB

TSB Strategy to enhance growth and returns

TSB has three clear strategic priorities in order to build upon its existing strengths to drive growth and enhance returns.

(1) TSB aims to grow its PCA market share to consistently achieve a share of gross flow that is in excess of the scale of its distribution channels

(2) TSB will aim to accelerate its asset growth by re-entering the intermediary mortgage distribution channel with the aim, in time, to sell a volume of mortgages through this channel that is consistent with its size

(3) TSB will deploy its considerable digital banking capability to reduce customer servicing costs, deepen customer relationships and create new customer relationships

TSB Key Management

Will Samuel – Chairman

Having worked over 35 years in merchant banking and corporate finance, Will brings a wealth of expertise of the banking sector and regulatory environment to his role as Chairman of TSB.

Will began his career at Coopers & Lybrand where he qualified as a Chartered Accountant. In 1977, Will joined Schroders in the Investment Management Division and worked in a variety of roles. In 1986, he was appointed a Director of Schroders plc as the Group Managing Director of Investment Banking. Schroders subsequently sold its investment banking business to Schroder Salomon Smith Barney (SSSB) in 1999 and Will served as Co-Chief Executive Officer at SSSB until 2003, when he was appointed Vice Chairman, European Investment Bank of Citigroup Inc.

Will joined Lazard & Co in 2004 as Vice Chairman and was appointed a Senior Advisor from 2011. In January 2012, Will was appointed Senior Advisor to the Financial Services Authority and, subsequently, Senior Advisor to the Prudential Regulation Authority, when he stepped down prior to his appointment as Non-Executive Chairman of TSB.

Will has held other Non-Executive Directorships including Chairman of H P Bulmer plc, Deputy Chairman of Inchcape plc, and Non-Executive Director of the Edinburgh Investment Trust plc. Will was Trustee and Honorary Treasurer of International Alert, a charitable peace building non-governmental organisation, from 2009 to 2014.

In addition to his role as Chairman of TSB, Will serves as the Chairman of Howden Joinery Group (formerly MFI Furniture Group) and Chairman of Ecclesiastical Insurance Group since 2006.

Will is a Fellow of the Institute of Chartered Accountants in England and Wales and has a First Class Honours Degree in Chemistry from Durham University.

Paul Pester – Chief Executive Officer

Having spent six years working for Sir Richard Branson as the Group CEO at Virgin Money and the past six years working for António Horta-Osório, first at Santander UK and then at Lloyds, Paul brings a unique mix of skills to his role as CEO of TSB.

After receiving his degree from Manchester University and a doctorate from Oxford University, Paul spent 10 years in management consultancy, the majority of those years being spent at McKinsey & Company. Paul took-up his first senior executive role as the Group CEO at Virgin Money in 2000. Having established the business in the UK, Australia and South Africa, Paul moved to Lloyds TSB as the Managing Director of Consumer Banking in 2005.

Paul joined Santander UK in 2008 where he led the acquisition of Bradford & Bingley and the subsequent integration of Abbey, Alliance & Leicester and Bradford & Bingley to create a single UK business.

In 2010 Paul joined Lloyds where he took up the role of Managing Director of Consumer Banking and Payments. In 2011 Paul was appointed CEO of the Verde programme through which he led the development and establishment of the new TSB Bank within Lloyds. In 2013 Paul was appointed as CEO of TSB.

Darren Pope – Chief Financial Officer

Darren is a qualified accountant with over 25 years of experience in the financial services industry, the majority of which has been spent in retail financial services.

Darren started his career in Corporate Development at Prudential plc where he was initially an M&A specialist and subsequently became part of the team that led the development of the Prudential Bank which subsequently became Egg. As one of the founders of Egg, Darren served as the internet credit card, savings and mortgage provider’s UK Finance Director following its 2000 IPO.

Darren moved to Lloyds TSB in 2005 as Finance Director for the mortgage division where he was responsible for one of Europe’s largest mortgage books on the acquisition of HBOS. It was from here that Darren was appointed to Project Verde in 2010 where he led all aspects of the programme before moving in to the CFO role in 2011.

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Notes to Editors:

1. Based on CET 1 ratios and leverage ratios of Barclays, HSBC, Lloyds Banking Group, Nationwide, RBS, Santander UK and Virgin Money as stated in the 2013 annual reports and accounts (except for Nationwide which is contained in the March 2014 offering circular but also based on 2013 data)

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In connection with the Offer, each of the Underwriters and Rothschild or any of their respective affiliates, acting as investors for their own accounts, may subscribe for or purchase Ordinary Shares and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Ordinary Shares and other securities of the Company or related investments in connection with the Offer or otherwise. Accordingly, references in the Prospectus, once published, to the Ordinary Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Underwriters, Rothschild or any of their respective affiliates acting as investors for their own accounts. In addition, certain of the Underwriters, Rothschild or their affiliates may enter into financing arrangements and swaps in connection with which they or their affiliates may from time to time acquire, hold or dispose of Ordinary Shares. The Underwriters and Rothschild or any of their respective affiliates do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

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The Offer timetable, including the date of Admission, may be influenced by a range of factors such as market conditions. There is no guarantee that the Offer and Admission will occur and you should not base your financial decisions on Lloyds Banking Group's intentions in relation to the Offer and Admission at this stage. Acquiring investments to which this announcement relates may expose an investor to a significant risk of losing all of the amount invested. The value of Ordinary Shares can go down as well as up. Potential investors should consult a professional advisor as to the suitability of the Offer for the person concerned. Past performance cannot be relied upon as a guide to future performance.

In connection with the Offer, a stabilising manager, or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Ordinary Shares or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The stabilising manager may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 10 per cent. of the total number of Ordinary Shares comprised in the Offer. The stabilising manager will not be required to enter into such transactions and such transactions may be effected on any securities, market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. However, there will be no obligation on the stabilising manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. Such stabilising measures, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the offer price. Save as required by law or regulation, neither the stabilising manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

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