

**NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, IN OR INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF SUCH JURISDICTION.**

**FOR IMMEDIATE RELEASE**

**20 MARCH 2015**

**RECOMMENDED CASH OFFER**

**for**

**TSB BANKING GROUP PLC**

**by**

**BANCO DE SABADELL S.A.**

**Summary**

- The boards of directors of Banco de Sabadell S.A. (**Sabadell**) and TSB Banking Group plc (**TSB**) are pleased to announce that they have reached agreement on the terms of a recommended cash offer for TSB by Sabadell pursuant to which Sabadell will acquire the entire issued and to be issued share capital of TSB (the **Offer**). Sabadell has agreed to acquire a 9.99 per cent. interest in TSB from Lloyds Bank plc (**Lloyds**), and Lloyds has entered into an irrevocable undertaking to accept the Offer in respect of its entire remaining 40.01 per cent. shareholding in TSB.
- **Under the terms of the Offer, TSB Shareholders will receive 340 pence per share in cash for each TSB Share, which values the entire issued share capital of TSB at approximately £1.7 billion.**
- The Offer represents a premium of approximately:
  - 4 per cent. to the Closing Price of 327 pence per TSB Share on 19 March 2015, being the last Business Day before the date of this announcement;
  - 29 per cent. to the Closing Price of 264.1 pence per TSB Share on 11 March 2015, being the last Business Day before the joint announcement by Sabadell and TSB in response to media speculation that commenced the Offer Period; and
  - 31 per cent. to the offer price of 260 pence per TSB Share on its initial public offering announced on 20 June 2014.
- The Offer implies a price to book value multiple of 1.0 times.
- Sabadell expects to support and accelerate TSB's retail growth strategy and accelerate the expansion of TSB's presence in the SME sector. Sabadell intends to continue to operate TSB as a robust competitor in the UK banking market, building on the TSB brand name. Sabadell believes that it and TSB share similar values and customer commitment.
- Sabadell recognises the contributions made by TSB's management and employees to TSB's success and believes that they are very important to the future development of Sabadell. Following completion of the Offer, Paul Pester and Darren Pope of TSB have agreed to continue in their current roles. Paul Pester will also join the Management Executive Committee of Sabadell Group on completion. Will Samuel has agreed to remain as the independent Chairman of TSB following completion of the Offer. Sabadell currently anticipates

that the board of TSB would include, in addition to the independent Chairman, two executive directors (being Paul Pester and Darren Pope), three directors to be appointed by Sabadell and three independent non-executive directors.

### **Strategic and Financial Rationale**

Sabadell believes that the Offer is strategically attractive and will deliver the following benefits:

#### **Internationalisation of Sabadell**

- Continuation of Sabadell's successful growth strategy, with internationalisation a key part of Sabadell's business plan.
- Pro forma for the acquisition of TSB, 22 per cent. of Sabadell's assets will be located outside its home market, up from 5 per cent. in December 2014.
- The acquisition will result in benefits to Sabadell through enhanced scale and a broader funding and capital base.

#### **Entry into the attractive UK banking market**

- Sabadell believes that the UK banking market, including the market serving UK retail and SME customers, is attractive, having a well-defined and stable regulatory framework, consistent profitability and good future growth prospects.
- The challenger bank market is relatively unconsolidated in the UK and Sabadell believes that this will create opportunities to further develop TSB's market position over time.

#### **TSB is a strong challenger bank franchise and positions Sabadell for future growth in the UK market**

- TSB is a straight-forward retail and small business bank with a distribution reach of 6 per cent. share of UK branches.
- TSB has already had considerable success in attracting new customers, attracting 8.4 per cent. of new and switching UK personal bank accounts opening in 2014.
- TSB is well-capitalised, with a fully loaded Common Equity Tier 1 capital ratio on a pro forma IRB basis<sup>1</sup> of 19.7 per cent. and has a strong funding position with a franchise loan to deposit ratio of 77 per cent.
- TSB has a strong management team and a committed workforce.
- TSB has a solid franchise with a sound basis to drive further asset and liability growth, having demonstrated strong growth in current accounts in 2014 and having successfully re-entered the mortgage intermediary market in January 2015.

#### **Sabadell's management track record can accelerate TSB's strategic development and financial performance**

- Sabadell's management team is delivering on Sabadell's Triple business plan.

---

<sup>1</sup> Assumes all asset classes except the mortgage enhancement provided by Lloyds and subject to a call option are treated on an IRB basis. Operational risk, treasury assets (e.g. liquid asset holdings at central banks and gilts) and non-customer related asset balances (e.g. fixed assets, deferred tax) continue to be rated on a standardised basis.

- Sabadell anticipates that, under its ownership, TSB will be able to further enhance its growth strategy and efficiency, benefitting from Sabadell's resources, experience in SME lending and experience gained in the Spanish banking market.
- Sabadell perceives opportunities to continue to grow TSB's share in the personal current account market, to accelerate its growth in lending (including through the mortgage intermediary channel), to accelerate the expansion of TSB's presence in the SME sector and to enhance its digital distribution channels.
- Sabadell believes that there will be potential for savings to be made through the expected full migration of the IT transitional services currently provided by Lloyds onto Sabadell's proprietary Proteo technology platform.

#### **Compelling financial returns**

- Sabadell believes that substantial savings will be derived from IT optimisation benefits (savings of approximately £160 million per annum on a pre-tax basis are anticipated in the third full year after completion of the Offer).
- Lloyds will provide £450 million in support to deliver the migration of the IT transitional services currently provided by Lloyds onto Sabadell's Proteo platform.
- The acquisition is expected to be capital neutral.
- The acquisition is expected to be EPS accretive in the medium term.

#### **Purchase of Lloyds' shareholding and irrevocable undertakings**

- Lloyds and Sabadell have entered into a sale and purchase, irrevocable undertaking and option deed, which includes the following elements:
  - a sale and purchase agreement under which Sabadell will acquire from Lloyds 49,999,999 TSB Shares (representing 9.99 per cent. of the issued ordinary share capital of TSB), such sale being expected to complete on 24 March 2015;
  - an irrevocable undertaking over Lloyds's entire remaining holding of 200,000,003 TSB Shares following the acquisition of the 9.99 per cent. holding, representing 40.01 per cent. of the issued ordinary share capital of TSB, less any TSB Shares acquired by Sabadell pursuant to the Call Option, as outlined below. The undertaking from Lloyds shall remain binding in the event of a competing offer being made for TSB; and
  - a call option (the **Call Option**) in favour of Sabadell to acquire from Lloyds up to 100,000,000 TSB Shares (representing 20 per cent. of the issued ordinary share capital of TSB) (the **Option Cap**), such Call Option exercisable up to four times over any number of TSB Shares up to the Option Cap and at any time following the receipt of certain regulatory approvals until such time as the Offer is unconditional in all respects, lapses or is withdrawn.
- In addition, Sabadell has received irrevocable undertakings to accept (or procure acceptance of) the Offer from each of the TSB Directors who hold TSB Shares in respect of their own shareholdings, being, in aggregate, 47,901 TSB Shares, representing approximately 0.01 per cent. of the issued ordinary share capital of TSB as at 19 March 2015 (being the latest practicable date before this announcement). The undertakings from TSB Directors remain binding in the event of a competing offer being made for TSB.
- As a result, Sabadell has received irrevocable undertakings in respect of or has acquired, in aggregate, 250,047,903 TSB Shares representing approximately 50.01 per cent. of the issued ordinary share capital of TSB as at 19 March 2015 (being the latest practicable date before this announcement).

## **Recommendation**

- The TSB Directors, who have been so advised by Citigroup and Rothschild as to the financial terms of the Offer, consider the terms of the Offer to be fair and reasonable. In providing advice to the TSB Directors, each of Citigroup and Rothschild has taken into account the commercial assessments of the TSB Directors. Accordingly, the TSB Directors intend unanimously to recommend that TSB Shareholders accept the Offer, as the TSB Directors have irrevocably undertaken to do in respect of their own beneficial holdings of TSB Shares amounting to, in aggregate, 47,901 TSB Shares representing approximately 0.01 per cent. of TSB's ordinary share capital in issue on 19 March 2015 (being the last practicable date before the release of this announcement)

- Commenting on the Offer, Josep Oliu Creus, Chairman of Sabadell, said:

*“We see the UK as an attractive market with a strong regulatory framework, sound macroeconomic fundamentals and exciting prospects for growth. TSB is a well-established brand which shares our culture of focusing on our customers and local communities. We believe that our experience of growing SME lending, our resilient and tested IT platform and our commitment to innovation will speed up TSB's expansion so that it fulfils its potential as a strong and effective challenger to the traditional UK banks, without any of their legacy issues.”*

- Commenting on the Offer, Will Samuel, Chairman of TSB, said:

*“Since the IPO, TSB has pursued a strategy focused on growing its share of personal current accounts, accelerating asset growth through re-entering the intermediary mortgage channel and providing the kind of banking that people want. The offer from Sabadell represents a significant endorsement of TSB's progress since its IPO and provides TSB shareholders the opportunity to receive today in cash the value that would otherwise be unlocked over time as TSB executes its strategy.”*

- Commenting on the Offer, Paul Pester, Chief Executive Officer of TSB, said:

*“Since its launch on high streets across Britain in September 2013, TSB has been successful in attracting new customers and establishing itself as Britain's challenger bank. Today's offer by Sabadell to acquire TSB is a real vote of confidence in TSB, our 8,700 employees and the straightforward, transparent approach we're bringing to banking in the UK. With the support of Sabadell, TSB will benefit from the full capabilities the wider group will have to offer enabling us to accelerate our competitive capabilities even further. I'm looking forward to working with Sabadell to continue to bring great banking to consumers across Britain, accelerate the expansion of our services to business customers and to continue to bring more competition to UK banking.”*

## **Offer Conditions, financing and structure of the Offer**

- The Offer is conditional upon, amongst other things: (i) valid acceptances being received in respect of TSB Shares which, together with all other TSB Shares acquired by Sabadell (whether pursuant to the Offer or otherwise) constitute not less than 75 per cent. in nominal value of the TSB Shares and represent not less than 75 per cent. of the voting rights carried by the TSB Shares; (ii) the PRA consenting to the acquisition by Sabadell of control of TSB; and (iii) anti-trust clearance from the European Commission. Appendix 1 to this announcement sets out the Conditions and further terms to which the Offer will be subject, including details of requisite regulatory approvals. The Offer does not require the approval of Sabadell shareholders.
- The Offer will be financed from Sabadell's existing cash and cash equivalent resources.
- Sabadell is also announcing a fully underwritten rights issue, which is intended to raise gross proceeds of approximately €1.6 billion (US\$1.7 billion and £1.2 billion), such proceeds to be used to maintain Sabadell's

Common Equity Tier 1 capital ratio following completion of the Offer (the **Rights Issue**). The Offer is not conditional on the Rights Issue.

- Sabadell reserves the right, subject to the consent of the Panel, to effect the Offer by way of a Court-sanctioned scheme of arrangement under Part 26 of the UK Companies Act.
- Lloyds will make arrangements to pay, to any investors who would have been entitled to receive Lloyds Bonus Shares, the cash value of those bonus shares (at the Offer price to be paid by Sabadell). The Board of TSB has discussed these arrangements with Lloyds and is fully supportive of the arrangements that have been made.

### **Advisers**

- Goldman Sachs International is acting as exclusive financial adviser to Sabadell in respect of the Offer. Allen & Overy LLP is acting as legal adviser to Sabadell.
- Citigroup Global Markets Limited is providing financial and corporate broking advice to the TSB Directors in relation to the Offer and Rothschild is providing financial advice to the TSB Directors in relation to the Offer. In its capacity as joint-corporate broker RBC Capital Markets has also provided advice to TSB in relation to the Offer. Herbert Smith Freehills LLP is acting as legal adviser to TSB.
- UBS Limited and BofA Merrill Lynch are acting as financial advisers to Lloyds Banking Group plc. Linklaters LLP is acting as legal adviser to Lloyds Banking Group plc.
- The Offer Document will include full details of the Offer and will specify the action to be taken by TSB Shareholders. It is expected that the Offer Document will be posted to TSB Shareholders by 17 April 2015.

**This summary should be read in conjunction with, and is subject to, the full text of this announcement (including the Appendices). The Offer will be subject to the Conditions and further terms set out in Appendix 1 to this announcement and to the full terms and conditions which will be set out in the Offer Document. Appendix 2 contains the bases and sources of certain information used in this summary and this announcement. Appendix 3 contains details of the irrevocable undertakings received in relation to the Offer that are referred to in this announcement. Appendix 4 contains definitions of certain terms used in this summary and this announcement.**

### **Analyst presentation:**

Sabadell will host a presentation for analysts and investors at The Lincoln Centre, 18 Lincoln's Inn Fields WC2A 3ED with a conference call and webcast at 9:30 a.m. (UK time) today (20 March 2015) to discuss the Offer.

The presentation and audio will be available live via webcast at: [www.sabadelltsbinfo.com](http://www.sabadelltsbinfo.com)

If you wish to participate in the live Q&A session, please register for the appropriate dial in details using the web link below:

<http://members.meetingzone.com/selfregistration/registration.aspx?booking=lnKSNK5XGhAUmxJQB8NimWrbZu3TYzUfNmak40VRe4=>

Please allow sufficient time to register before the start of the presentation. Participants can register for the conference call facility in advance.

The webcast will be available on replay via [www.sabadelltsbinfo.com](http://www.sabadelltsbinfo.com), shortly after the presentation ends.

**Enquiries:**

**Sabadell**

Albert Coll +34 93 728 8990

**Goldman Sachs International (Sabadell's Financial Adviser)**

+44 20 7774 1000

Dirk Lievens

Mark Sorrell

Carlos Pertejo

**Brunswick Group LLP (Sabadell's PR Adviser)**

Azadeh Varzi +44 20 7404 5959

Andrew Garfield

Rurik Ingram

**TSB**

Charlotte Sjoberg (TSB's Head of Media Relations) +44 20 7003 9281

TSB Media Relations +44 20 70039369

**Citigroup Global Markets Limited (TSB's Financial Adviser and Corporate Broker)**

Gilles Graham +44 20 7986 4000

John Sandhu

Edward McBride

Robert Redshaw (Corporate Broking)

**Rothschild (TSB's Financial Adviser)**

Stephen Fox +44 20 7280 5000

Edward Mitting

Jonathan Slaughter

**RBC Capital Markets (TSB's Corporate Broker)**

+44 20 7653 4000

Oliver Hearsey

James Eves

**Bell Pottinger (TSB's PR Adviser)**

Clinton Manning +44 20 7293 3885

***Important notices relating to financial advisers***

*Goldman Sachs International, which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for Sabadell and no one else in connection with the Offer and will not be responsible to anyone other than Sabadell for providing the protections afforded to its clients or for providing advice in relation to the Offer.*

*Citigroup Global Markets Limited (Citigroup), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting*

*exclusively for TSB and no one else in connection with the Offer and will not be responsible to anyone other than TSB for providing the protections afforded to its clients or for providing advice in relation to the Offer.*

*N.M. Rothschild & Sons Limited (**Rothschild**), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for TSB and no one else in connection with the Offer and will not be responsible to anyone other than TSB for providing the protections afforded to its clients or for providing advice in relation to the Offer.*

*RBC Europe Limited (**RBC Capital Markets**), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting for TSB and no one else in connection with the matters referred to in this announcement and will not be responsible to anyone other than TSB for providing the protections afforded to clients of RBC Capital Markets, or for providing advice in connection with the matters referred to in this announcement.*

*UBS Limited (**UBS**), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting as financial adviser to Lloyds Banking Group plc and no one else in connection with the subject matter of this announcement and will not be responsible to anyone other than Lloyds Banking Group for providing the protections offered to clients of UBS Limited nor for providing advice in connection with the subject matter of this announcement.*

*Merrill Lynch International (**BofA Merrill Lynch**), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, a subsidiary of Bank of America Corporation, is acting for Lloyds Banking Group plc in connection with the subject matter of this announcement and for no one else and will not be responsible to anyone other than Lloyds Banking Group plc for providing the protections afforded to its clients or for providing advice in relation to the subject matter of this announcement.*

### **Further information**

*This announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to the Offer or otherwise. The Offer will be made solely by means of the Offer Document and the Form of Acceptance accompanying the Offer Document, which will contain the full terms and conditions of the Offer, including details of how the Offer may be accepted. Any response to the Offer should be made only on the basis of information contained in the Offer Document. TSB Shareholders are advised to read the formal documentation in relation to the Offer carefully once it has been despatched.*

*This announcement has been prepared for the purposes of complying with English law, the rules of the London Stock Exchange and the Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws and regulations of any jurisdiction outside the United Kingdom.*

### **Overseas jurisdictions**

*The distribution of this announcement in jurisdictions other than the United Kingdom or the United States and the ability of TSB Shareholders who are not resident in the United Kingdom or the United States to participate in the Offer may be affected by the laws of relevant jurisdictions. Therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom or the United States or TSB Shareholders who are not resident in the United Kingdom or the United States will need to inform themselves about, and observe, any applicable legal or regulatory requirements. Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction. Further details in relation to overseas shareholders will be contained in the Offer Document.*

*The Offer is not being, and will not be, made available, directly or indirectly, in or into or by the use of the mails of, or by any other means or instrumentality of interstate or foreign commerce of, or any facility of a national state or other*

*securities exchange of any Restricted Jurisdiction, unless conducted pursuant to an exemption from the applicable securities laws of such Restricted Jurisdiction.*

*Accordingly, copies of this announcement and all documents relating to the Offer are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in, into or from any Restricted Jurisdiction except pursuant to an exemption from the applicable securities laws of such Restricted Jurisdiction and persons receiving this announcement (including, without limitation, agents, nominees, custodians and trustees) must not distribute, send or mail it in, into or from such jurisdiction. Any person (including, without limitation, any agent, nominee, custodian or trustee) who has a contractual or legal obligation, or may otherwise intend, to forward this announcement and/or the Offer Document and/or any other related document to a jurisdiction outside the United Kingdom or the United States should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction.*

### **Notice to US holders of TSB Shares**

*The Offer is being made in the United States pursuant to Section 14(e) and Regulation 14E under the US Exchange Act and otherwise in accordance with the requirements of the Code. Accordingly, the Offer will be subject to disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments that are different from those applicable under US domestic tender offer procedures and law.*

*The Offer is being made for the securities of an English company with a listing on the London Stock Exchange. The Offer is subject to UK disclosure requirements, which are different from certain United States disclosure requirements. The financial information on TSB included in this announcement has been prepared in accordance with IFRS and the financial information on Sabadell included in this announcement has been prepared in accordance with IFRS, thus neither may be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.*

*The receipt of cash pursuant to the Offer by a US holder of TSB Shares may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other, tax laws. Each TSB Shareholder is urged to consult his independent professional adviser immediately regarding the tax consequences of accepting the Offer. Furthermore, the payment and settlement procedure with respect to the Offer will comply with the relevant United Kingdom rules, which differ from the United States payment and settlement procedures, particularly with regard to the date of payment of consideration.*

*The Offer will be made in the United States by Sabadell and no one else. Neither Goldman Sachs International nor Citigroup nor Rothschild, nor any of their respective affiliates, will be making the Offer in the United States.*

*It may be difficult for US holders of TSB Shares to enforce their rights and any claim arising out of US federal securities laws, since Sabadell is incorporated under the laws of Spain and TSB is incorporated under the laws of England and Wales and some or all of their officers and directors are residents of non-US jurisdictions. In addition, most of the assets of Sabadell and TSB are located outside the United States. US holders of TSB Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.*

*This announcement does not constitute an offer of securities for sale in the United States or an offer to acquire or exchange securities in the United States. No offer to acquire securities or to exchange securities for other securities has been made, or will be made, directly or indirectly, in or into, or by the use of the mails of, or by any means or instrumentality of interstate or foreign commerce or any facilities of a national securities exchange of, the United States or any other country in which such offer may not be made other than: (i) in accordance with the tender offer requirements under the US Exchange Act, or the securities laws of such other country, as the case may be, or: (ii) pursuant to an available exemption from such requirements.*

*Neither the US Securities and Exchange Commission nor any US state securities commission has approved or disapproved the Offer, or passed comment upon the adequacy or completeness of this announcement or the Offer Document. Any representation to the contrary is a criminal offence in the United States.*

*To the extent permitted by applicable law, in accordance with, and to the extent permitted by, the Code and normal UK market practice, Sabadell or its nominees or brokers (acting as agents) or their respective affiliates may from time to time make certain purchases of, or arrangements to purchase, shares or other securities in TSB, other than pursuant to the Offer, at any time prior to completion of the Offer becoming effective. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any such purchases, or arrangements to purchase, will comply with all applicable UK rules, including the Code, the rules of the London Stock Exchange and Rule 14e-5 under the US Exchange Act to the extent applicable. In addition, in accordance with, and to the extent permitted by, the Code and normal UK market practice, Goldman Sachs International, Citigroup, Rothschild, UBS and BofA Merrill Lynch and their respective affiliates will continue to act as exempt principal traders in TSB Shares on the London Stock Exchange and engage in certain other purchasing activities consistent with their respective normal and usual practice and applicable law. To the extent required by the applicable law (including the Code), any information about such purchases will be disclosed on a next day basis to the Panel on Takeovers and Mergers and a Regulatory Information Service including the Regulatory News Service on the London Stock Exchange website, [www.londonstockexchange.com](http://www.londonstockexchange.com).*

### **Forward-looking statements**

*This announcement contains statements about Sabadell and TSB which are, or may be deemed to be, “forward-looking statements” and which are prospective in nature. All statements other than statements of historical fact included in this announcement may be forward-looking statements. They are based on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as “plans”, “expects”, “is expected”, “is subject to”, “budget”, “scheduled”, “estimates”, “forecasts”, “predicts”, “intends”, “anticipates”, “believes”, “targets”, “aims”, “projects”, “future-proofing” or words or terms of similar substance or the negative of such words or terms, as well as variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “should”, “would”, “might” or “will” be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Forward-looking statements may include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of Sabadell’s or TSB’s operations and potential synergies resulting from the Offer; and (iii) the effects of global economic conditions on Sabadell’s or TSB’s business.*

*Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors may cause the actual results, performance or achievements of the Sabadell Group or the TSB Group to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results, performance or achievements of the Sabadell Group or the TSB Group to differ materially from the expectations of the Sabadell Group or the TSB Group, as applicable, include, among other things: UK domestic and global economic and business conditions; the ability to access sufficient funding to meet the Sabadell Group’s or the TSB Group’s liquidity needs; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including in relation to interest rates and exchange rates; changing demographics and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK or the European Union or other jurisdictions in which either the Sabadell Group or the TSB Group operates; the implementation of the Recovery and Resolution Directive and banking reform following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of*

competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints and other factors. Each of the Sabadell Group and the TSB Group, and each of their respective members, directors, officers, employees, advisers and persons acting on their behalf, expressly disclaims any intention or obligation to update or revise any forward-looking or other statements contained in this announcement, whether as a result of new information, future events or otherwise, except as required by applicable law.

No member of the Sabadell Group nor the TSB Group, nor any of their respective associates, directors, officers, employees or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur.

Other than in accordance with its legal or regulatory obligations, neither Sabadell or TSB is under any obligation and Sabadell and TSB each expressly disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Except as expressly provided in this announcement, no forward-looking or other statements have been reviewed by the auditors of the Sabadell Group or the TSB Group. All subsequent oral or written forward-looking statements attributable to any member of the Sabadell Group or TSB Group, or any of their respective associates, directors, officers, employees or advisers, are expressly qualified in their entirety by the cautionary statement above.

#### **No profit forecasts or estimates**

No statement in this announcement is intended as a profit forecast or estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per share for Sabadell or TSB, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for Sabadell or TSB, as appropriate.

#### **Disclosure requirements of the Code**

Under Rule 8.3(a) of the Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).*

*Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.*

### **Rule 2.10 disclosure**

*In accordance with Rule 2.10 of the Code, TSB announced on 12 March 2015 that it has 500,000,000 ordinary shares of one pence each in issue and admitted to trading on the main market of the London Stock Exchange. The International Securities Identification Number for the TSB Shares is GB00BMQX2Q65.*

### **Information relating to TSB Shareholders**

*Please be aware that addresses, electronic addresses and certain other information provided by TSB Shareholders, persons with information rights and other relevant persons for the receipt of communications from TSB may be provided to Sabadell during the Offer Period as required under Section 4 of Appendix 4 to the Code.*

### **Publication on website**

*A copy of this announcement (and the analyst and investor presentation referred to above) will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, for inspection on Sabadell's website at [www.sabadelltsbinfo.com](http://www.sabadelltsbinfo.com) and on TSB's website at [www.tsb.co.uk](http://www.tsb.co.uk) by no later than 12 noon (London time) on the Business Day following the date of this announcement. For the avoidance of doubt the contents of those websites are not incorporated, and do not form part of, this announcement.*

*Sabadell Shareholders may request a hard copy of this announcement by contacting Johan Svensson during business hours on +34 93 7288973 or by submitting a request by email to [svenssonjohan@bancsabadell.com](mailto:svenssonjohan@bancsabadell.com) or in writing to C/Sena 12 08174 Sant Cugat del Vallés, Barcelona, Spain. A hard copy of this announcement will be sent to TSB Shareholders (other than TSB Shareholders who have elected to receive electronic communications) in the near future. TSB Shareholders may request a hard copy of this announcement by contacting Gemma Parsons, Deputy Company Secretary during business hours on +44 020 7003 9473 or by submitting a request in writing to TSB Banking Group plc, 20 Gresham Street, London, EC2V 7JE. Sabadell Shareholders and TSB Shareholders may also request that all future documents, announcements and information to be sent to them in relation to the Offer should be in hard copy form.*

### **Rights Issue**

*This announcement does not constitute an offer to sell, or a solicitation of offers to purchase or subscribe for, securities in the United States or any other jurisdiction. The securities to be issued in the rights issue referred to herein have not been, and will not be, registered under the U.S. Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. There is no intention to register any portion of the rights issue in the United States or to conduct a public offering of securities pursuant to the rights issue in the United States. This announcement does not solicit money, securities or any other type of consideration in connection with the rights issue and, if any money, securities or other type of consideration is sent in response hereto, it will not be accepted.*

***Rounding***

*Certain figures included in this announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.*



### 3. **Background to and reasons for the Offer**

#### **Strategic benefits of the acquisition**

Sabadell believes that the Offer is strategically attractive and will deliver the following benefits:

#### **Internationalisation of Sabadell**

- Entering into new markets is a key part of Sabadell's business plan. Internationalisation allows Sabadell to draw on its strengths and experience in M&A integration and IT know-how. Sabadell has already successfully entered the US market by way of an acquisition and is continuing to grow there.
- Pro forma for the acquisition of TSB, 22 per cent. of Sabadell's assets will be located outside its home market, up from 5 per cent. in December 2014.
- The acquisition will result in benefits to Sabadell through enhanced scale and a broader funding and capital base.

#### **Entry into the attractive UK banking market**

- Sabadell believes that the UK banking market is attractive, having a well-defined and stable regulatory framework, consistent profitability and good future growth options.
- In general, the UK offers attractive returns, driven by its strong recent macroeconomic performance and relatively wealthy household sector with sophisticated banking needs, which drives product demand.
- In addition, the UK retail and SME banking market offers attractive prospects as the landscape is being substantially redefined following the creation of a number of challenger banks.
- The challenger bank market is relatively unconsolidated in the UK and Sabadell sees an opportunity to further develop TSB's market position over time.

#### **TSB is a strong challenger bank franchise and positions Sabadell for future growth in the UK market**

- TSB was created to bring more competition to UK banking, with a strategy to meet more customer needs and to improve the banking experience for customers. TSB has a well-defined strategy as a straightforward retail and small business bank with a defined product range. This business model is attractive to, and understood by, Sabadell, and Sabadell believes that this business model is well-aligned with that of Sabadell. In addition, TSB is well-capitalised, with a fully-loaded Common Equity Tier 1 capital ratio on a pro forma IRB basis<sup>2</sup> of 19.7 per cent. and has a strong funding position with a franchise loan to deposit ratio of 77 per cent.
- TSB is well-positioned given the structure of the UK banking market, including a nationwide network of branches, access to intermediaries and brokers through its re-entry into the intermediary mortgage market and a strong online and mobile banking platform. TSB has a 6 per cent. share of UK branches, while its share of all UK personal bank accounts is only 4.3 per cent., creating potential for further growth.
- TSB has a strong franchise, respected brand, a strong team of management and a committed workforce.
- TSB benefits from a sound platform on which to drive further asset and liability growth, as evidenced by TSB having an 8.4 per cent. share of all new and switching personal bank accounts in the UK during 2014, which is

---

<sup>2</sup> Assumes all asset classes except the mortgage enhancement provided by Lloyds and subject to a call option are treated on an IRB basis. Operational risk, treasury assets (e.g. liquid asset holdings at central banks and gilts) and non-customer related asset balances (e.g. fixed assets, deferred tax) continue to be rated on a standardised basis.

well ahead of TSB's long term target of 6 per cent. and by its successful re-entry into the intermediary mortgage market in January 2015, which saw applications of over £300 million in the first six weeks.

### **Sabadell's management track record can accelerate TSB's strategic development and financial performance**

- Sabadell's management team is delivering on Sabadell's Triple business plan.
- Sabadell believes that there is potential to use its skills and experience gained in the Spanish market to the benefit of TSB. Sabadell anticipates that, under its ownership, TSB will be able to further enhance its growth strategy and efficiency, benefitting from Sabadell's resources, experience in SME lending and experience gained in the Spanish banking market. Over the past few years, Sabadell has grown from a challenger bank to the fifth largest bank in Spain and, although Sabadell continues to see attractive growth potential in Spain, its current primary objective in Spain is to continue its organic growth strategy.
- Sabadell perceives opportunities to continue to grow TSB's share in the personal current account market, to accelerate its growth in lending (including through the mortgage intermediary channel), to accelerate the expansion of TSB's presence in the SME sector and to enhance its digital distribution channels.
- In addition, Sabadell believes that there will be potential for savings to be made through the expected full migration of the IT transitional services currently provided by Lloyds onto Sabadell's proprietary Proteo technology platform. Proteo is a multi-country, multi-brand, multi-entity systems architecture developed in 2000 with Sabadell's acquisition strategy in mind. Between 2008 and 2014, Sabadell has executed IT migrations onto the Proteo platform for seven acquired banks and has carried out integrations resulting from business acquisitions, portfolio acquisitions and carve-outs.
- As a result of the above factors, Sabadell believes that, over time, Sabadell can significantly enhance TSB's financial returns in comparison to that which TSB could achieve on a standalone basis.

### **Financial benefits of the acquisition**

- Sabadell believes that the combination of Sabadell and TSB will create substantial shareholder value.
- Sabadell estimates that it can deliver, through the application of Sabadell's skills and technology, efficiency cost savings in IT amounting to approximately £160 million per annum on a pre-tax basis, in the third full year after completion of the Offer. These expected savings derive from a full migration of the IT transitional services currently provided by Lloyds onto Sabadell's proprietary Proteo technology platform.
- At the time of the initial public offering of TSB, Lloyds agreed to make a £450 million contribution to TSB's cost of undertaking an IT migration, and TSB may elect to spend some or all of the £450 million obtaining exit assistance services from Lloyds. Sabadell expects that the £450 million contribution will be more than sufficient to meet the implementation costs of the IT migration onto Sabadell's platform.
- In addition to IT efficiency cost savings, Sabadell expects to generate revenue benefits by accelerating the development of TSB's franchise. Sabadell believes that TSB's distribution reach provides a sound basis to drive further asset and liability growth (as mentioned above, TSB has a 6 per cent. share of UK branches, while its share of all UK personal bank accounts is only 4.3 per cent.).

### **Financial effects of the Offer on Sabadell**

- Sabadell expects to finance the acquisition on a capital neutral basis for the Sabadell Group and that the acquisition will be broadly neutral to Sabadell's earnings in the short term and enhancing to earnings in the medium term.

- Sabadell also anticipates a neutral impact on the Sabadell Group's Common Equity Tier 1 capital ratios following the completion of the Rights Issue.

The following table shows Sabadell risk-weighted assets, capital and fully loaded Common Equity Tier 1 ratio: (1) as reported as of December 31, 2014; (2) pro forma for the net proceeds of the €1.6 billion Rights Issue; and (3) pro forma for the net proceeds of the €1.6 billion Rights Issue and giving effect to the acquisition of a 100% stake in TSB.

<b>As of December 31, 2014</b>			
<b>Actual</b>	<b>Pro forma to €1,607 million Rights Issue</b>	<b>Pro forma, as adjusted to give effect to acquisition of 100% stake in TSB and Rights Issue</b>	
<b>(in thousands of euros, except percentages)</b>			
<b>(Unaudited)</b>			
Fully Loaded CET 1 (€m).....	8,542	10,119 <sup>3</sup>	9,908 <sup>4</sup>
Risk-Weighted Assets .....	74,515	74,515	85,312 <sup>5</sup>
Fully Loaded CET 1 (%).....	11.5%	13.6%	11.6%

*Assuming exchange rate of EUR:GBP 0.72145 as of 19 March 2015*

Calculated on a pro forma basis for the Rights Issue and the Offer, Sabadell's fully loaded Common Equity Tier 1 capital ratio as at 31 December 2014 would be 11.6 per cent. (vs. 11.5 per cent. as at 31 December 2014).

No statement in this paragraph is intended to be a profit forecast, nor should it be interpreted as such. No statement in this paragraph should be interpreted to mean that earnings or earnings per share for Sabadell or TSB, as appropriate, will necessarily match or exceed the historical published earnings or earnings per share for Sabadell or TSB, as appropriate.

#### **4. Recommendation**

The TSB Directors, who have been so advised by Citigroup and Rothschild as to the financial terms of the Offer, consider the terms of the Offer to be fair and reasonable. In providing advice to the TSB Directors, each of Citigroup and Rothschild has taken into account the commercial assessments of the TSB Directors. Citigroup and Rothschild are providing independent financial advice to the TSB Directors for the purpose of Rule 3 of the Code.

Accordingly, the TSB Directors intend unanimously to recommend that TSB Shareholders accept the Offer, as the TSB Directors have irrevocably undertaken to do so, or procure, in respect of their own beneficial holdings in TSB amounting to, in aggregate, 47,901 TSB Shares representing approximately 0.01 per cent. of TSB's ordinary share capital in issue on 19 March 2015 (being the last practicable date prior to the release of this announcement).

Further details of these irrevocable undertakings are set out in paragraph 6 below and Appendix 3 to this announcement.

<sup>3</sup> Adjusting for €1,607 million rights issue

<sup>4</sup> Negative impact of €244 million (£174 million) resulting from (1) €120 million (£87 million) expected loss shortfall and (2) €91 million (£66 million) of goodwill generated from acquisition (consideration of £1,700 million vs book value of £1,634 million) and (3) rights issue costs of €30 million (£21 million); all subject to purchase price allocation and other post transaction adjustments

<sup>5</sup> Impact of €10,797 million/£7,790 million coming from the consolidation of TSB's Risk Weighted Assets (under IRB) of €10,715 million/£7,730 million plus €82 million/£59 million of deferred tax assets DTAs generated from expected loss shortfall

## **5. Background to and reasons for the recommendation of the TSB Directors**

TSB was formed by Lloyds Banking Group plc in order to satisfy part of Lloyds Banking Group plc's State Aid restructuring plan requirements that were agreed with the European Commission in November 2009. The configuration of the bank evolved over the course of the divestment process and TSB was launched as a retail and small business bank on 9 September 2013. Currently, TSB has 631 branches, £21.6 billion of loans, £24.6 billion of customer deposits and generated a profit of £134.5 million for the year ended 31 December 2014. TSB completed its initial public offering in June 2014, and Lloyds Banking Group plc is obliged to sell the remainder of its shareholding by the end of this year, except in certain circumstances.

TSB has positioned itself as "Britain's challenger bank" and pursued a growth strategy focused on growing its share of personal current accounts, growing its Franchise customer lending and differentiating and enhancing its brand. The Board of TSB believes that its strong capital and funding position, its strong brand and its high quality, scalable distribution channels and operating platform provide TSB with a robust platform for both organic and inorganic growth.

TSB has made a strong start with its strategy and made financial progress in 2014, against the strategic growth priorities set out at the time of the initial public offering. TSB is targeting consistently acquiring at least 6 per cent. of all those customers moving bank accounts or opening a new account each year and achieved an 8.4 per cent. share in 2014. TSB is also targeting growth of 40 per cent. to 50 per cent. in its Franchise balance sheet over the 5 years following its IPO, primarily through re-entering the mortgage intermediary market. TSB successfully entered this market in January 2015 and reported in late February at its 2014 results that it had already received mortgage applications of over £300 million. This growth in customers and balance sheet should, when supported by increasing UK interest rates, enable the TSB business to achieve a double digit return on equity over the five year period from the initial public offering.

The Board of TSB remains confident in the ongoing execution of its strategy as an independent company and that its successful delivery will provide long-term growth and create significant value for shareholders. While mindful of the very encouraging start the business has made in delivering its strategy, the Board of TSB has, in considering the offer made by Sabadell, also taken into account the likely time it will take for TSB to fully deliver on that strategy and the possible macro-economic, competitive and regulatory headwinds that might emerge. In addition, the Board of TSB believes that under Sabadell ownership, TSB would be able to further enhance its growth strategy and efficiency, benefitting from Sabadell's resources, experience gained in the Spanish banking market, SME capability as well as its track record of successful business and IT integrations.

The 340 pence per share Offer for TSB represents a 29 per cent. premium to the closing price on 11 March 2015, the day before the announcement of Sabadell's possible offer, and equates to a valuation of 1.0 times TSB's price to book value per share. The Board of TSB believes that the Offer will provide TSB shareholders the opportunity to receive today in cash the value that would otherwise be unlocked over time as TSB executes its strategy and realises its longer term growth prospects, whilst removing the risks inherent in the delivery of that growth plan. In reaching its conclusion, the Board of TSB considered the terms of the Offer in relation to the value and prospects of the underlying business and the potential medium term value of TSB Shares.

Following careful consideration of the above factors, the TSB Directors recommend that TSB Shareholders accept the Offer, as they have each irrevocably undertaken to do in respect of their own beneficial holdings of TSB Shares amounting to, in aggregate, 47,901 TSB Shares representing approximately 0.01 per cent. of TSB's ordinary share capital in issue on 19 March 2015 (being the last practicable date before the release of this announcement).

## **6. Share purchase and irrevocable undertakings**

Lloyds and Sabadell have entered into a sale and purchase, irrevocable undertaking and option deed, which includes the following elements:

- an unconditional sale and purchase agreement under which Sabadell will acquire from Lloyds 49,999,999 TSB Shares (representing approximately 9.99 per cent. of the issued ordinary share capital of TSB), such sale being expected to complete on 24 March 2015;
- an irrevocable undertaking over Lloyds's entire remaining holding of 200,000,003 TSB Shares following the acquisition of the 9.99 per cent. holding, representing 40.01 per cent. of the issued ordinary share capital of TSB, less any TSB Shares acquired by Sabadell pursuant to the Call Option, as outlined below. The undertaking from Lloyds shall remain binding in the event of a competing offer being made for TSB; and
- a call option (the **Call Option**) in favour of Sabadell to acquire from Lloyds up to 100,000,000 TSB Shares (representing 20 per cent. of the issued ordinary share capital of TSB) (the **Option Cap**), such Call Option exercisable up to four times over any number of TSB Shares up to the Option Cap and at any time following the receipt of certain regulatory approvals until such time as the Offer is unconditional in all respects, lapses or is withdrawn.

Sabadell has also received irrevocable undertakings to accept (or procure acceptance of) the Offer from each of the TSB Directors who hold TSB Shares in respect of their own shareholdings (and/or those of their close family, as relevant) being, in aggregate, 47,901 TSB Shares, representing approximately 0.01 per cent. of the issued ordinary share capital of TSB as at 19 March 2015 (being the latest practicable date before this announcement). The undertakings from TSB Directors remain binding in the event of a competing offer being made for TSB. Further details of the irrevocable undertakings in relation to the Offer are set out in Appendix 3 to this announcement.

As a result, Sabadell has received irrevocable undertakings or has acquired, in aggregate, 250,047,903 TSB Shares representing approximately 50.01 per cent. of the issued ordinary share capital of TSB as at 19 March 2015 (being the latest practicable date before this announcement).

## 7. **Information on Sabadell**

Sabadell is Spain's fifth largest banking group with total assets of €163 billion as at 31 December 2014 and operates under several brands. Sabadell is a strong competitor in its home market and has developed a successful international presence in the United States. Sabadell is one of the best capitalised financial institutions in the Spanish financial sector, is listed on the Barcelona, Madrid, Bilbao and Valencia Stock Exchanges and is a member of the IBEX-35. In the year to 31 December 2014, Sabadell generated gross operating income of approximately €4.8 billion and an attributable net profit of approximately €372 million. As at 19 March 2015, Sabadell had a market capitalisation of approximately €8.9 billion.

Sabadell's strategy is to leverage its capital position and market share in Spain to lead a recovery in lending in the short, medium and long term, with a focus on increasing profitability. Sabadell has a target ROTE (return on equity less goodwill) of 12% for 2016. To achieve this Sabadell aims to increase its market share of lending to SMEs and affluent persons as well as to close the profitability gap between that of the acquired franchises and the average profitability of Sabadell's branch network.

The Sabadell Group's largest business line is commercial banking, which provides a range of financial products and services for large and medium-sized companies, SMEs, shops, self-employed workers and private individuals (i.e. private banking, personal banking and retail banking), non-residents, professional groups, and public administrations.

In total, Sabadell employs more than 17,000 people in over 2,200 branches, with a customer base of approximately 6.5 million.

## **8. Information on TSB**

TSB is a UK retail and small business bank with strong capabilities. As at 31 December 2014, TSB had approximately 4.6 million retail and approximately 113,000 small business banking customers. TSB has a multi-channel, national distribution model, including 631 branches (as at 31 December 2014), with coverage across England, Scotland and Wales and a full digital (internet and mobile) and telephony capability.

TSB's comprehensive product suite includes personal current accounts, savings products, mortgages, unsecured personal loans, credit cards and business lending and insurance products. TSB's service and sales capability is supported by approximately 8,700 employees.

As at 31 December 2014, TSB had loans of £21.6 billion and customer deposits of £24.6 billion.

Additionally, as at 31 December 2014, TSB's Common Equity Tier 1 ratio was 23.0 per cent., its total capital ratio was 28.5 per cent. and its leverage ratio was 5.8 per cent. TSB's fully loaded Common Equity Tier 1 capital ratio on a pro forma IRB basis was approximately 19.7 per cent.

## **9. Management, employees and governance**

Sabadell recognises the contributions made by TSB's management and employees to TSB's success and believes that they are very important to the future development of Sabadell.

Following completion of the Offer, Paul Pester and Darren Pope of TSB have agreed to continue in their current roles, subject to agreeing personal terms and conditions. Paul Pester has also agreed to join the Management Executive Committee of Sabadell Group on completion.

Sabadell intends to procure that TSB will continue to operate in accordance with best practice UK corporate governance principles, in a manner appropriate to its ownership following completion of the Offer.

Will Samuel has agreed to remain as the independent Chairman of TSB following completion of the Offer. Sabadell currently anticipates that the board of TSB would include, in addition to the independent Chairman, two executive directors (being Paul Pester and Darren Pope), three directors to be appointed by Sabadell and three independent non-executive directors.

Sabadell confirms that, following the completion of the Transaction, Sabadell will fully safeguard the existing employment rights of all TSB employees, in accordance with contractual and statutory requirements. In addition, Sabadell intends to comply with all of the pensions obligations in relation to TSB's employees and any other members of TSB's pensions scheme.

Sabadell has already had preliminary discussions with Lloyds regarding the IT integration of TSB into Sabadell Group.

Sabadell does not have any plans to significantly change the branch network or headcount at TSB in the short term after the completion of the Transaction. However, limited cost reductions may be undertaken as a consequence of TSB no longer being a public company. Sabadell may also adjust TSB's cost base after completion to reflect factors including market environment, financial performance and the pace of business development opportunities.

## **10. Dividends and TSB dividend policy**

TSB's current dividend policy does not envisage the declaration of its inaugural dividend before the end of the 2017 financial year. The TSB Directors have re-affirmed this and confirm that no dividend will be proposed, declared, made or paid in respect of any TSB Shares following the date of this announcement and before such time as the Offer is declared unconditional in all respects or if the Offer lapses, is terminated or is withdrawn.

## 11. Current trading

Current trading for both Sabadell and TSB continues in line with statements made in their respective announcements on 20 March 2015 and 25 February 2015. TSB's trading announcement is available to view at [www.tsb.co.uk](http://www.tsb.co.uk). A summary of Sabadell's trading update is set out below.

### *Sabadell trading update*

- Overall, performance is consistent with Sabadell's results in previous quarters
- Net interest income continues to grow compared to previous quarters, driven by lower cost of customer funds and wholesale funding
- Despite the seasonality, net commissions remain at a similar level to the second half of last year, on the back of positive performance in the asset management business
- High levels of gains from financial operations in relation to the management of Sabadell's ALCO portfolio have been realised
- Growth in administrative costs have been contained
- As in FY 2014, non-recurring income gains have been offset by additional impairments, resulting in increased NPL coverage ratios
- Balances of customer loans remain stable with a positive outlook on loans to SMEs and companies. Total NPLs are below the level at the end of FY 2014 and coverage levels have increased
- Based on the data available to date, Sabadell confirms that its financial development is in line with both the 2015 budget and with targets set out in the strategic plan Triple 2014-2016, reiterating the target of €1 billion of net profit FY 2016

## 12. Financing

The cash consideration payable by Sabadell to TSB Shareholders under the Offer will be financed from Sabadell's existing cash and cash equivalent resources.

Sabadell is also announcing a fully underwritten rights issue (the **Rights Issue**), which is intended to raise gross proceeds of approximately €1.6 billion (US\$1.7 billion and £1.2 billion), such proceeds to be used to maintain Sabadell's Common Equity Tier 1 capital ratio following completion of the Offer. The Offer is not conditional on the Rights Issue.

Goldman Sachs International, as financial adviser to Sabadell, is satisfied that sufficient resources are available to Sabadell to satisfy, in full, the cash consideration payable to TSB Shareholders under the terms of the Offer.

## 13. Structure of the Offer

### 13.1 Terms and conditions

The Offer is conditional upon, amongst other things, the PRA consenting to the acquisition by Sabadell of control of TSB and to the extent applicable upon anti-trust clearance from the European Commission. Appendix 1 to this announcement sets out the Conditions and further terms to which the Offer will be subject, including details of requisite regulatory approvals. The Offer does not require the approval of Sabadell shareholders.

### 13.2 Takeover offer

It is intended that the Offer be implemented by means of a takeover offer under the Code. Sabadell reserves the right, subject to the consent of the Panel, to effect the Offer by way of a Court-sanctioned scheme of arrangement under Part 26 of the UK Companies Act.

### 13.3 Publication of Offer Document

It is expected that the Offer Document will be posted to TSB Shareholders by 17 April 2015.

### 13.4 Squeeze-out, delisting and cancellation of trading

If Sabadell receives acceptances under the Offer in respect of, and/or otherwise acquires not less than 90 per cent. of the TSB Shares by nominal value and voting rights attaching to such shares to which the Offer relates, Sabadell intends to exercise its rights pursuant to section 979 of the UK Companies Act to acquire compulsorily the remaining TSB Shares.

After the Offer becomes or is declared unconditional in all respects and if Sabadell has: (i) by virtue of its shareholdings and acceptances of the Offer acquired, or agreed to acquire, TSB Shares representing at least 75 per cent. of the voting rights of TSB; and (ii) Sabadell has obtained acceptances of the Offer or acquired or agreed to acquire TSB Shares from independent shareholders that represent a majority of the voting rights held by the independent shareholders on the date of this announcement, Sabadell intends to procure the making of an application by TSB for cancellation, respectively, of the trading in TSB Shares on the London Stock Exchange's main market for listed securities and of the listing of TSB Shares on the premium listing segment of the Official List. A notice period of not less than 20 London Business Days before the cancellation will commence on the date on which the Offer becomes or is declared unconditional in all respects provided Sabadell has attained 75 per cent. or more of the voting rights as described above or otherwise as soon as Sabadell attains 75 per cent. or more of the voting rights of TSB as described above. Delisting would significantly reduce the liquidity and marketability of any TSB Shares not assented to the Offer.

## 14. Disclosure of interests in TSB Shares

As at the close of business on 19 March 2015, being the latest practicable date before this announcement, Sabadell did not hold any TSB Shares. Sabadell confirms that, in accordance with Rule 8.1(b) of the Code, it will be making a Dealing Disclosure in respect of the 9.99 per cent. interest in TSB Shares that it has agreed to acquire from Lloyds.

## 15. Offer-related arrangements

### *Confidentiality Agreement*

Sabadell and TSB entered into a confidentiality agreement on 6 March 2015 (the **Confidentiality Agreement**) pursuant to which Sabadell has undertaken to keep confidential information relating to TSB and not to disclose it to third parties (other than to permitted disclosees) unless required by law or regulation. These confidentiality obligations will remain in force for a period of two years from the date of the Confidentiality Agreement and are also enforceable by Lloyds in respect of confidential information disclosed by Lloyds to Sabadell in relation to its arrangements with TSB.

### *Co-operation Agreement*

Sabadell and TSB entered into a co-operation agreement on 20 March 2015 (the **Co-operation Agreement**) pursuant to which, amongst other things: (i) Sabadell and TSB have agreed that certain of their respective representatives will form an implementation committee with a view to satisfying the PRA Condition; (ii) Sabadell has undertaken to use its reasonable endeavours to satisfy the PRA Condition as promptly as

reasonably practicable; (iii) TSB and Sabadell have each agreed to co-operate regarding the implementation of appropriate proposals regarding the TSB Share Plans; and (iv) Sabadell has agreed to seek the Panel's consent to an extension to the Code timetable at the relevant time in the event it becomes apparent that the PRA Condition is not likely to be satisfied within the normal Code timetable.

#### **16. TSB Share Plans**

The Offer will extend to any TSB Shares unconditionally allotted or issued pursuant to the exercise of options or vesting of awards under the TSB Share Plans while the Offer remains open for acceptance. Appropriate proposals will be made in due course to participants in the TSB Share Plans.

In addition, certain TSB employees hold legacy awards under the Lloyds Long Term Incentive Plan. As a result of Sabadell having acquired a 9.99 per cent. interest in TSB from Lloyds, these employees have become "good leavers" under that plan, and this will result in a pro-rata reduction being applied to the number of Lloyds shares subject to such legacy awards. As announced in the prospectus to shareholders in connection with the initial public offering (**IPO**) of TSB, TSB agreed that at such time as that pro-rata reduction is triggered it would grant substitution awards to affected TSB employees over TSB shares with a value that reflects the pro-rata reduction. TSB therefore intends to grant such substitution awards as soon as is reasonably practicable following the date of this announcement.

#### **17. Bonus share scheme**

At the time of the IPO of TSB in June 2014, Lloyds implemented a bonus share scheme pursuant to which retail investors acquiring shares in TSB through the IPO and holding those shares for 12 months thereafter would, subject to certain conditions and limits, be entitled to receive a number of free and full-paid up additional shares (**Lloyds Bonus Shares**) from Lloyds following that 12-month period (which expires on 25 June 2015). The terms of the scheme contemplate the scenario where a change of control of TSB occurs before the entitlement to the Lloyds Bonus Shares crystallises and provides that in such circumstances Lloyds would make arrangements to compensate investors. Accordingly, if the Offer is declared wholly unconditional before 25 June 2015, Lloyds will make arrangements to pay, to any investors who would have been entitled to receive such Lloyds Bonus Shares under the terms of the scheme, the cash value of those Lloyds Bonus Shares (at the offer price to be paid by Sabadell). In addition, if the Offer period extends beyond 25 June 2015 (whether or not the Offer is subsequently declared wholly unconditional or lapses), Lloyds intends to extend the compensation arrangements described above such that, in those circumstances, it will make arrangements to pay, to any investors who are entitled to receive Lloyds Bonus Shares under the terms of the scheme, the cash value of those bonus shares (again at the offer price to be paid by Sabadell).

The Board of TSB has discussed these arrangements with Lloyds and is fully supportive of the arrangements that have been made.

#### **18. Documents available on websites**

Copies of the following documents will be published by no later than 12 noon (London time) on the Business Day following this announcement on Sabadell's website at [www.sabadelltsbinfo.com](http://www.sabadelltsbinfo.com) and on TSB's website at [www.tsb.co.uk](http://www.tsb.co.uk) and will be made available until the end of the Offer Period:

- a copy of this announcement;
- the irrevocable undertakings described in paragraph 6 and set out in Appendix 3 to this announcement;
- the Confidentiality Agreement; and
- the Co-operation Agreement.

## 19. General

This announcement does not constitute an offer or an invitation to purchase or subscribe for any securities.

Your attention is drawn to the further information contained in the Appendices which form part of, and should be read in conjunction with, this announcement.

The Offer will be subject to the Conditions and further terms set out in Appendix 1 to this announcement and to the full terms and conditions which will be set out in the Offer Document. Appendix 2 contains the bases and sources of certain information used in this summary and this announcement. Appendix 3 contains details of the irrevocable undertakings received in relation to the Offer that are referred to in this announcement. Appendix 4 contains definitions of certain terms used in this announcement.

### Enquiries:

#### **Sabadell**

Albert Coll +34 93 728 8990

#### **Goldman Sachs International (Sabadell's Financial Adviser)**

+44 20 7774 1000

Dirk Lievens

Mark Sorrell

Carlos Pertejo

#### **Brunswick Group LLP (Sabadell's PR Adviser)**

Azadeh Varzi

+44 20 7404 5959

Andrew Garfield

Rurik Ingram

#### **TSB**

Charlotte Sjoberg (TSB's Head of Media Relations)

+44 20 7003 9281

TSB Media Relations

+44 20 70039369

#### **Citigroup Global Markets Limited (TSB's Financial Adviser and Corporate Broker)**

Gilles Graham

+44 20 7986 4000

John Sandhu

Edward McBride

Robert Redshaw (Corporate Broking)

#### **Rothschild (TSB's Financial Adviser)**

Stephen Fox

+44 20 7280 5000

Edward Mitting

Jonathan Slaughter

#### **RBC Capital Markets (TSB's Corporate Broker)**

+ 44 20 7653 4000

Oliver Harsey

James Eves

**Bell Pottinger (TSB's PR Adviser)**

Clinton Manning

+44 20 7293 3885

***Important notices relating to financial advisers***

*Goldman Sachs International, which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for Sabadell and no one else in connection with the Offer and will not be responsible to anyone other than Sabadell for providing the protections afforded to its clients or for providing advice in relation to the Offer.*

*Citigroup Global Markets Limited (**Citigroup**), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for TSB and no one else in connection with the Offer and will not be responsible to anyone other than TSB for providing the protections afforded to its clients or for providing advice in relation to the Offer.*

*N.M. Rothschild & Sons Limited (**Rothschild**), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for TSB and no one else in connection with the Offer and will not be responsible to anyone other than TSB for providing the protections afforded to its clients or for providing advice in relation to the Offer.*

*RBC Europe Limited (**RBC Capital Markets**), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting for TSB and no one else in connection with the matters referred to in this announcement and will not be responsible to anyone other than TSB for providing the protections afforded to clients of RBC Capital Markets, or for providing advice in connection with the matters referred to in this announcement.*

*UBS Limited (**UBS**), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom. UBS Limited, is acting as financial adviser to Lloyds and no one else in connection with the subject matter of this announcement and will not be responsible to anyone other than Lloyds for providing the protections offered to clients of UBS Limited nor for providing advice in connection with the subject matter of this announcement.*

*Merrill Lynch International (**BofA Merrill Lynch**), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, a subsidiary of Bank of America Corporation, is acting for Lloyds in connection with the subject matter of this announcement and for no one else and will not be responsible to anyone other than Lloyds for providing the protections afforded to its clients or for providing advice in relation to the subject matter of this announcement.*

***Further information***

*This announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to the Offer or otherwise. The Offer will be made solely by means of the Offer Document and the Form of Acceptance accompanying the Offer Document, which will contain the full terms and conditions of the Offer, including details of how the Offer may be accepted. Any response to the Offer should be made only on the basis of information contained in the Offer Document. TSB Shareholders are advised to read the formal documentation in relation to the Offer carefully once it has been despatched.*

*This announcement has been prepared for the purposes of complying with English law, the rules of the London Stock Exchange and the Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws and regulations of any jurisdiction outside the United Kingdom.*

## **Overseas jurisdictions**

*The distribution of this announcement in jurisdictions other than the United Kingdom or the United States and the ability of TSB Shareholders who are not resident in the United Kingdom or the United States to participate in the Offer may be affected by the laws of relevant jurisdictions. Therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom or the United States or TSB Shareholders who are not resident in the United Kingdom or the United States will need to inform themselves about, and observe, any applicable legal or regulatory requirements. Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction. Further details in relation to overseas shareholders will be contained in the Offer Document.*

*The Offer is not being, and will not be, made available, directly or indirectly, in or into or by the use of the mails of, or by any other means or instrumentality of interstate or foreign commerce of, or any facility of a national state or other securities exchange of any Restricted Jurisdiction, unless conducted pursuant to an exemption from the applicable securities laws of such Restricted Jurisdiction.*

*Accordingly, copies of this announcement and all documents relating to the Offer are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in, into or from any Restricted Jurisdiction except pursuant to an exemption from the applicable securities laws of such Restricted Jurisdiction and persons receiving this announcement (including, without limitation, agents, nominees, custodians and trustees) must not distribute, send or mail it in, into or from such jurisdiction. Any person (including, without limitation, any agent, nominee, custodian or trustee) who has a contractual or legal obligation, or may otherwise intend, to forward this announcement and/or the Offer Document and/or any other related document to a jurisdiction outside the United Kingdom or the United States should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction.*

## **Notice to US holders of TSB Shares**

*The Offer is being made in the United States pursuant to Section 14(e) and Regulation 14E under the US Exchange Act and otherwise in accordance with the requirements of the Code. Accordingly, the Offer will be subject to disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments that are different from those applicable under US domestic tender offer procedures and law.*

*The Offer is being made for the securities of an English company with a listing on the London Stock Exchange. The Offer is subject to UK disclosure requirements, which are different from certain United States disclosure requirements. The financial information on TSB included in this announcement has been prepared in accordance with IFRS and the financial information on Sabadell included in this announcement has been prepared in accordance with IFRS, thus neither may be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.*

*The receipt of cash pursuant to the Offer by a US holder of TSB Shares may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other, tax laws. Each TSB Shareholder is urged to consult his independent professional adviser immediately regarding the tax consequences of accepting the Offer. Furthermore, the payment and settlement procedure with respect to the Offer will comply with the relevant United Kingdom rules, which differ from the United States payment and settlement procedures, particularly with regard to the date of payment of consideration.*

*The Offer will be made in the United States by Sabadell and no one else. Neither Goldman Sachs nor Citigroup nor Rothschild, nor any of their respective affiliates, will be making the Offer in the United States.*

*It may be difficult for US holders of TSB Shares to enforce their rights and any claim arising out of US federal securities laws, since Sabadell is incorporated under the laws of Spain and TSB is incorporated under the laws of England and Wales and some or all of their officers and directors are residents of non-US jurisdictions. In addition, most of the assets of Sabadell and TSB are located outside the United States. US holders of TSB Shares may not be able*

to sue a non-US company or its officers or directors in a non-US court for violations of US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.

This announcement does not constitute an offer of securities for sale in the United States or an offer to acquire or exchange securities in the United States. No offer to acquire securities or to exchange securities for other securities has been made, or will be made, directly or indirectly, in or into, or by the use of the mails of, or by any means or instrumentality of interstate or foreign commerce or any facilities of a national securities exchange of, the United States or any other country in which such offer may not be made other than: (i) in accordance with the tender offer requirements under the US Exchange Act, or the securities laws of such other country, as the case may be, or: (ii) pursuant to an available exemption from such requirements.

Neither the US Securities and Exchange Commission nor any US state securities commission has approved or disapproved the Offer, or passed comment upon the adequacy or completeness of this announcement or the Offer Document. Any representation to the contrary is a criminal offence in the United States.

To the extent permitted by applicable law, in accordance with, and to the extent permitted by, the Code and normal UK market practice, Sabadell or its nominees or brokers (acting as agents) or their respective affiliates may from time to time make certain purchases of, or arrangements to purchase, shares or other securities in TSB, other than pursuant to the Offer, at any time prior to completion of the Offer becoming effective. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any such purchases, or arrangements to purchase, will comply with all applicable UK rules, including the Code, the rules of the London Stock Exchange and Rule 14e-5 under the US Exchange Act to the extent applicable. In addition, in accordance with, and to the extent permitted by, the Code and normal UK market practice, Goldman Sachs International, Citigroup, Rothschild, UBS and BofA Merrill Lynch and their respective affiliates will continue to act as exempt principal traders in TSB Shares on the London Stock Exchange and engage in certain other purchasing activities consistent with their respective normal and usual practice and applicable law. To the extent required by the applicable law (including the Code), any information about such purchases will be disclosed on a next day basis to the Panel on Takeovers and Mergers and a Regulatory Information Service including the Regulatory News Service on the London Stock Exchange website, [www.londonstockexchange.com](http://www.londonstockexchange.com)

### **Forward-looking statements**

This announcement contains statements about Sabadell and TSB which are, or may be deemed to be, "forward-looking statements" and which are prospective in nature. All statements other than statements of historical fact included in this announcement may be forward-looking statements. They are based on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "is expected", "is subject to", "budget", "scheduled", "estimates", "forecasts", "predicts", "intends", "anticipates", "believes", "targets", "aims", "projects", "future-proofing" or words or terms of similar substance or the negative of such words or terms, as well as variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Forward-looking statements may include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of Sabadell's or TSB's operations and potential synergies resulting from the Offer; and (iii) the effects of global economic conditions on Sabadell's or TSB's business.

Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors may cause the actual results, performance or achievements of the Sabadell Group or the TSB Group to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results, performance or achievements of the Sabadell Group or the TSB Group to differ materially from the expectations of the Sabadell Group or the TSB Group, as applicable, include, among other things: UK domestic and

*global economic and business conditions; the ability to access sufficient funding to meet the Sabadell Group's or the TSB Group's liquidity needs; risks concerning borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; market-related risks including in relation to interest rates and exchange rates; changing demographics and market-related trends; changes in customer preferences; changes to laws, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements; the policies and actions of governmental or regulatory authorities in the UK or the European Union or other jurisdictions in which either the Sabadell Group or the TSB Group operates; the implementation of the Recovery and Resolution Directive and banking reform following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; the effects of competition and the actions of competitors, including non-bank financial services and lending companies; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints and other factors. Each of the Sabadell Group and the TSB Group, and each of their respective members, directors, officers, employees, advisers and persons acting on their behalf, expressly disclaims any intention or obligation to update or revise any forward-looking or other statements contained in this announcement, whether as a result of new information, future events or otherwise, except as required by applicable law.*

*No member of the Sabadell Group nor the TSB Group, nor any of their respective associates, directors, officers, employees or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur.*

*Other than in accordance with its legal or regulatory obligations, neither Sabadell or TSB is under any obligation and Sabadell and TSB each expressly disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

*Except as expressly provided in this announcement, no forward-looking or other statements have been reviewed by the auditors of the Sabadell Group or the TSB Group. All subsequent oral or written forward-looking statements attributable to any member of the Sabadell Group or TSB Group, or any of their respective associates, directors, officers, employees or advisers, are expressly qualified in their entirety by the cautionary statement above.*

#### ***No profit forecasts or estimates***

*No statement in this announcement is intended as a profit forecast or estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per share for Sabadell or TSB, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for Sabadell or TSB, as appropriate.*

#### ***Disclosure requirements of the Code***

*Under Rule 8.3(a) of the Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.*

*Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.*

*If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).*

*Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.*

#### **Rule 2.10 disclosure**

*In accordance with Rule 2.10 of the Code, TSB announced on 12 March 2015 that it has 500,000,000 ordinary shares of one pence each in issue and admitted to trading on the main market of the London Stock Exchange. The International Securities Identification Number for the TSB Shares is GB00BMQX2Q65.*

#### **Information relating to TSB Shareholders**

*Please be aware that addresses, electronic addresses and certain other information provided by TSB Shareholders, persons with information rights and other relevant persons for the receipt of communications from TSB may be provided to Sabadell during the Offer Period as required under Section 4 of Appendix 4 to the Code.*

#### **Publication on website**

*A copy of this announcement (and the analyst and investor presentation referred to above) will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, for inspection on Sabadell's website at [www.sabadelltsbinfo.com](http://www.sabadelltsbinfo.com) and on TSB's website at [www.tsb.co.uk](http://www.tsb.co.uk) by no later than 12 noon (London time) on the Business Day following the date of this announcement. For the avoidance of doubt the contents of those websites are not incorporated, and do not form part of, this announcement.*

*Sabadell Shareholders may request a hard copy of this announcement by contacting Johan Svensson during business hours on +34 93 7288973 or by submitting a request by email to [svenssonjohan@bancsabadell.com](mailto:svenssonjohan@bancsabadell.com) or in writing to C/Sena 12 08174 Sant Cugat del Vallés, Barcelona, Spain. A hard copy of this announcement will be sent to TSB Shareholders (other than TSB Shareholders who have elected to receive electronic communications) in the near future. TSB Shareholders may request a hard copy of this announcement by contacting Gemma Parsons, Deputy Company Secretary during business hours on +44 020 7003 9473 or by submitting a request in writing to TSB Banking Group plc, 20 Gresham Street, London, EC2V 7JE. Sabadell Shareholders and TSB Shareholders may also request that all future documents, announcements and information to be sent to them in relation to the Offer should be in hard copy form.*

***Rights Issue***

*This announcement does not constitute an offer to sell, or a solicitation of offers to purchase or subscribe for, securities in the United States or any other jurisdiction. The securities to be issued in the rights issue referred to herein have not been, and will not be, registered under the U.S. Securities Act, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. There is no intention to register any portion of the rights issue in the United States or to conduct a public offering of securities pursuant to the rights issue in the United States. This announcement does not solicit money, securities or any other type of consideration in connection with the rights issue and, if any money, securities or other type of consideration is sent in response hereto, it will not be accepted.*

***Rounding***

*Certain figures included in this announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.*

## APPENDIX 1

### CONDITIONS AND FURTHER TERMS OF THE OFFER

#### PART 1

#### CONDITIONS OF THE OFFER

The Offer will be made on the terms and conditions set out in this Appendix and in the Offer Document and the Form of Acceptance.

#### 1. Conditions to the Offer

The Offer will be subject to the following conditions:

##### Acceptance condition

- (a) valid acceptances being received (and not, where permitted, withdrawn) by no later than 1.00 p.m. (London time) on the first closing date of the Offer (or such later time(s) and/or date(s) as Sabadell may, with the consent of the Panel or in accordance with the Code, decide) in respect of TSB Shares which, together with all other TSB Shares acquired by Sabadell (whether pursuant to the Offer or otherwise) carry not less than 75 per cent. (or such lower percentage as Sabadell may decide) in nominal value of the TSB Shares and represent not less than 75 per cent. (or such lower percentage as Sabadell may decide) of the voting rights carried by the TSB Shares, provided that this condition will not be satisfied unless Sabadell and/or any of its wholly-owned subsidiaries shall have acquired, or agreed to acquire, pursuant to the Offer or otherwise, TSB Shares carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of TSB, including for this purpose (to the extent, if any, required by the Panel) any such voting rights attaching to any TSB Shares that are unconditionally allotted or issued before the Offer becomes or is declared unconditional as to acceptances whether pursuant to the exercise of any outstanding subscription or conversion rights or otherwise and for the purposes of this condition:
  - (i) shares which have been unconditionally allotted but not issued shall be deemed to carry the voting rights they will carry on issue; and
  - (ii) valid acceptances shall be deemed to have been received in respect of TSB Shares which are treated for the purposes of Part 28 of the UK Companies Act as having been acquired or contracted to be acquired by Sabadell by virtue of acceptances of the Offer.

##### European Commission clearance

- (b) insofar as the Offer falls within the scope of Council Regulation (EC) 139/2004 (as amended) (the **EU Merger Regulation**):
  - (i) the European Commission taking a decision (or being deemed to have taken a decision) under Article 6(1)(b) of the EU Merger Regulation declaring the Offer compatible with the common market, without imposing any conditions or obligations that are not on terms reasonably satisfactory to Sabadell; or
  - (ii) if the European Commission takes a decision (or is deemed to have taken a decision) to refer the whole or part of the Offer to the UK Competition and Markets Authority (the **CMA**), under Article 9(3) of the EU Merger Regulation:

- (A) the CMA taking a decision with equivalent effect to that referred to in paragraph (b)(i) above with respect to those parts of the Offer referred to it; and
- (B) the European Commission taking the decision referred to in paragraph (b)(i) above with respect to any part of the Offer retained by it;

**Merger control clearance in any other jurisdiction**

- (c) to the extent that, in the reasonable opinion of Sabadell, any other merger control consents or approvals are necessary prior to the completion of the Offer according to the law of any other jurisdiction, all relevant notifications or filings having been made, all appropriate waiting periods (including any extensions thereof) having expired, lapsed or been terminated and all such clearances or approvals having been granted (or being deemed to have been granted in accordance with the relevant law) provided that each such clearance or approval has an equivalent effect to the decision referred to in paragraph (i) above and is on terms reasonably satisfactory to Sabadell;

**Other regulatory approvals**

- (d) the Prudential Regulation Authority (the **PRA**) approving either:
  - (i) unconditionally, pursuant to section 189(4)(a) or section 189(6) of the Financial Services and Markets Act 2000 (**FSMA**); or
  - (ii) subject to one or more conditions, pursuant to section 189(7) of the FSMA, that are satisfactory to Sabadell acting reasonably,

the changes of control over any TSB PRA-authorized person, arising as a result of the Offer or its implementation, by Sabadell, each controller of Sabadell and any other person who would become a controller.

In each case, for the purposes of this paragraph only, **controller** shall have the meaning ascribed to it in section 422 of the FSMA and **control** shall be construed in accordance with the provisions of Part XII of the FSMA;

**Other third party clearances**

- (e) other than in relation to the competition law and regulatory approvals referred to in paragraphs (b) to (d) above, no government or governmental, quasi-governmental, supranational, statutory, administrative or regulatory body or association, institution or agency (including any trade agency) or any court or other body (including any professional or environmental body) or person in any jurisdiction (each a **Relevant Authority**) having decided to take, institute or threaten any action, proceeding, suit, investigation, enquiry or reference or enacted, made or proposed and there not continuing to be outstanding any statute, regulation, order or decision that would or might reasonably be expected to (in any case which is material in the context of the Offer):
  - (i) make the acquisition or the proposed acquisition of TSB Shares, or control or management of TSB by Sabadell or any member of the Sabadell Group void, unenforceable or illegal in any jurisdiction or directly or indirectly prohibit or otherwise restrict, delay or interfere with the implementation of, or impose additional conditions or obligations with respect to, or otherwise challenge or require amendment to the terms of, the Offer or the proposed acquisition of any TSB Shares, or control or management of TSB by Sabadell or any member of the Sabadell Group;

- (ii) require, prevent or delay the divestiture (or alter the terms of any proposed divestiture) by the Sabadell Group or the TSB Group of all or any part of their respective businesses, assets or properties or impose any limitation on their ability to conduct all or any part of their respective businesses and to own, control or manage any of their respective assets or properties to an extent which is, in any such case, material in the context of the Sabadell Group or the TSB Group taken as a whole;
- (iii) impose any limitation on, or result in any delay in, the ability of any member of the Sabadell Group to acquire or hold or to exercise effectively, directly or indirectly, all or any rights of ownership of shares or other securities (or the equivalent) in, or to exercise management control over, any member of the TSB Group or on the ability of the TSB Group to hold or exercise effectively, directly or indirectly, all or any rights of ownership of shares or other securities (or the equivalent) in, or to exercise management control over, any other member of the TSB Group;
- (iv) require any member of the Sabadell Group or of the TSB Group to acquire or offer to acquire any shares or other securities (or the equivalent) or interest in any member of the TSB Group or any member of the Sabadell Group owned by a third party (other than in the implementation of the Offer) where such acquisition would be material in the context of the Sabadell Group or the TSB Group taken as a whole;
- (v) require the divestiture by any member of the Sabadell Group of any shares, securities or other interests in any member of the TSB Group;
- (vi) impose any limitation on, or result in any delay in, the ability of any member of the Sabadell Group or the TSB Group to integrate or co-ordinate its business, or any part of it, with the businesses or any part of the businesses of any other member of the Sabadell Group and/or the TSB Group;
- (vii) result in any member of the Sabadell Group or the TSB Group ceasing to be able to carry on business under any name under which it presently does so; or
- (viii) otherwise adversely affect the business, assets, financial or trading position or profits or prospects of any member of the Sabadell Group or the TSB Group in each case in a manner which is material in the context of the Sabadell Group or the TSB Group taken as a whole,

and all applicable waiting and other time periods (including extensions thereof) during which any such Relevant Authority could decide to take, institute or threaten any such action, proceeding, suit, investigation, enquiry or reference having expired, lapsed or been terminated;

- (f) other than in relation to the competition law and regulatory approvals referred to in paragraphs (b) to (e) above, all material filings, applications and/or notifications which are necessary or reasonably considered appropriate by Sabadell having been made and all relevant waiting periods and other time periods (including any extensions thereof) under any applicable legislation or regulation of any jurisdiction having expired, lapsed or been terminated and all applicable statutory or regulatory obligations in any jurisdiction having been complied with in each case in respect of the Offer and the acquisition or the proposed acquisition of any shares or other securities in, or control or management of, TSB or any member of the TSB Group by any member of the Sabadell Group or the carrying on by any member of the TSB Group of its business;
- (g) other than in relation to the competition law and regulatory approvals referred to in paragraphs (b) to (d), all material authorisations, orders, grants, recognitions, confirmations, licences, consents, clearances, permissions and approvals which are necessary or reasonably considered appropriate by Sabadell in any jurisdiction for or in respect of the Offer and the proposed acquisition of TSB Shares,,

or control of TSB, by Sabadell or any member of the Sabadell Group being obtained on terms and in a form reasonably satisfactory to Sabadell from appropriate Relevant Authorities, or from any persons or bodies with whom any member of the Sabadell Group or the TSB Group has entered into contractual arrangements or other material business relationships, and such authorisations, orders, grants, recognitions, confirmations, licences, consents, clearances, permissions and approvals, together with all authorisations, orders, grants, recognitions, confirmations, licences, consents, clearances, permissions and approvals necessary or reasonably considered appropriate for any member of the TSB Group to carry on its business, remaining in full force and effect and no intimation of any intention to revoke, suspend, restrict or modify or not to renew any of the same having been made and all necessary statutory or regulatory obligations in any jurisdiction having been complied with;

#### **Confirmation of absence of adverse circumstances**

- (h) except as Disclosed, there being no provision of any agreement, arrangement, licence or other instrument to which any member of the TSB Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or subject which, as a result of the implementation of the Offer or the acquisition or proposed acquisition by Sabadell or any member of the Sabadell Group of any TSB Shares, or change in the control or management of TSB or otherwise, would or might reasonably be expected to result in (in each case to an extent which is material in the context of the TSB Group taken as a whole):
- (i) any monies borrowed by or any other indebtedness (actual or contingent) of, or any grant available to, any member of the TSB Group becoming repayable, or capable of being declared repayable, immediately or earlier than the stated repayment date or the ability of such member to borrow monies or incur any indebtedness being withdrawn or inhibited;
  - (ii) the creation or enforcement of any mortgage, charge or other security interest over the whole or any material part of the business, property or assets of any member of the TSB Group or any such mortgage, charge or other security interest (whenever arising or having arisen) becoming enforceable;
  - (iii) any assets or interest of the TSB Group being or falling to be disposed of or ceasing to be available to any member of the TSB Group or any right arising under which any such asset or interest could be required to be disposed of or could cease to be available to any member of the TSB Group;
  - (iv) the interest or business of any member of the TSB Group in or with any other person, firm or company (or any agreements or arrangements relating to such interest or business) being terminated or adversely modified or affected;
  - (v) any member of the TSB Group ceasing to be able to carry on business under any name under which it presently does so;
  - (vi) the value of any member of the TSB Group or its financial or trading position or prospects being prejudiced or adversely affected;
  - (vii) any such agreement, arrangement, licence or other instrument being terminated or adversely modified or any onerous obligation arising or any adverse action being taken or arising thereunder;
  - (viii) the creation of any material liabilities (actual or contingent) by any member of the TSB Group; or

- (ix) any requirement on any member of the TSB Group to acquire, subscribe, pay up or repay any shares or other securities (or the equivalent);

and no event having occurred which, under any provision of any agreement, arrangement, licence or other instrument to which any member of the TSB Group is a party or by or to which any such member or any of its assets may be bound or be subject, will result in any events or circumstances as are referred to in this sub-paragraph (h);

**No material transactions, claims or changes in the conduct of the business of TSB:**

- (i) except as Disclosed, no member of the TSB Group has since 31 December 2014:
  - (i) issued or agreed to issue or authorised or proposed the issue of additional shares of any class, or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible or exchangeable securities or transferred or sold (or agreed to transfer or sell) any shares out of treasury (except, where relevant, as between TSB and its wholly owned subsidiaries or between its wholly owned subsidiaries and except in connection with the ongoing operation of the TSB Share Plans (in accordance with their respective terms) or as provided in the Co-operation Agreement;
  - (ii) recommended, declared, paid or made or resolved to recommend, declare, pay or make any bonus, dividend or other distribution, whether payable in cash or otherwise, other than a distribution by a wholly-owned subsidiary of TSB;
  - (iii) other than pursuant to the Offer, implemented or authorised any merger or demerger or (except for transactions between TSB and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries or transactions in the ordinary course of business) acquired or disposed of or transferred, mortgaged or charged, or created any other security interest over, any asset or any right, title or interest in any asset (in each case to an extent which is material in the context of the TSB Group or in the context of the Offer);
  - (iv) (except for transactions between TSB and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries or transactions in the ordinary course of business) entered into, or authorised the entry into, any joint venture, asset or profit sharing arrangement, partnership or merger of businesses or corporate entities (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer);
  - (v) (except for transactions between TSB and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries or transactions in the ordinary course of business) other than pursuant to the Offer, implemented or authorised any reconstruction, amalgamation, scheme or other transaction or arrangement with a substantially equivalent effect (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer);
  - (vi) (except for transactions between TSB and its wholly-owned subsidiaries, or between its wholly-owned subsidiaries or transactions in the ordinary course of business) purchased, redeemed or repaid any of its own shares or other securities or reduced or made or authorised any other change in its share capital;
  - (vii) (except for transactions between TSB and its wholly owned subsidiaries or between its wholly owned subsidiaries) made or authorised any change in its loan capital or issued or authorised the issue of any debentures or incurred or increased any indebtedness or contingent liability (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer);

- (viii) entered into, varied or terminated, or authorised the entry into, variation or termination of, any contract, commitment or arrangement (whether in respect of capital expenditure, real estate or otherwise) which is outside the ordinary course of business or which is of a long term, onerous or unusual nature or magnitude or which involves, or might reasonably be expected to involve, an obligation of a nature or magnitude which is restrictive on the business of any member of the TSB Group (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer);
- (ix) been unable or deemed unable, or admitted in writing that it is unable, to pay its debts as they fall due or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
- (x) commenced negotiations with any of its creditors or taken any step with a view to rescheduling or restructuring any of its indebtedness or entered into a composition, compromise, assignment or arrangement with any of its creditors whether by way of a voluntary arrangement, scheme of arrangement, deed of compromise or otherwise;
- (xi) (other than in respect of a subsidiary of TSB which is dormant and solvent at the relevant time) taken any corporate action or had any legal proceedings started, served or threatened against it or any documents filed or faxed in court for its winding-up (voluntary or otherwise), dissolution or reorganisation (or for any analogous proceedings or steps in any jurisdiction) or for the appointment of a liquidator, provisional liquidator, receiver, administrator, administrative receiver, trustee or similar officer (or for the appointment of any analogous person in any jurisdiction) of all or any of its assets and revenues or had notice given of the intention to appoint any of the foregoing to it (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer);
- (xii) except in the ordinary course of business, waived, compromised, settled, abandoned or admitted any dispute, claim or counter-claim whether made or potential and whether by or against any member of the TSB Group (in each case other than in the ordinary course of business and to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer);
- (xiii) made any material alteration to its constitutional documents;
- (xiv) entered into, or varied the terms of, or terminated or given notice of termination of, any service agreement or arrangement with any director or senior executive of the TSB Group;
- (xv) proposed, agreed to provide, or agreed to modify the terms of, any share option scheme, incentive scheme or other benefit relating to the employment or termination of employment of any person employed by the TSB Group, other than in accordance with the terms of the Offer other than as permitted pursuant to the Co-operation Agreement;
- (xvi) made or consented to any material change to the terms of the trust deeds constituting the pension schemes established for its directors and/or employees and/or their dependants or to the benefits which accrue, or to the pensions which are payable thereunder, or to the basis on which qualification for or accrual or entitlement to such benefits or pensions are calculated or determined, or to the basis upon which the liabilities (including pensions) of such pension schemes are funded or made, or agreed or consented to, any change to the trustees, other than in accordance with applicable law; or

- (xvii) save as between TSB and its wholly-owned subsidiaries, granted any lease in respect of any of the leasehold or freehold property owned or occupied by it or transferred or otherwise disposed of any such property (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer);
  - (xviii) entered into any contract, commitment or arrangement or passed any resolution or made any offer (which remains open for acceptance) with respect to, or proposed or announced any intention to effect or propose, any of the transactions, matters or events referred to in this paragraph (i);
- (j) except as Disclosed, since 31 December 2014:
- (i) no adverse change having occurred, and no circumstances having arisen which would or might reasonably be expected to result in any adverse change in the business, assets, financial or trading position or profits or prospects of any member of the TSB Group (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer); and
  - (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings in any jurisdiction having been threatened, announced, instituted or remaining outstanding by, against or in respect of any member of the TSB Group or to which any member of the TSB Group is a party (whether as claimant or defendant or otherwise) and no investigation by any Relevant Authority or other investigative body against or in respect of any member of the TSB Group having been threatened, announced, instituted or remaining outstanding by, against or in respect of any member of the TSB Group (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer);
- (k) save as Disclosed, no contingent or other liability having arisen outside the ordinary course of business which would or might reasonably be expected to adversely affect TSB (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer); and
- (l) save as Disclosed, Sabadell not having discovered that:
- (i) any financial, business or other information concerning any member of the TSB Group publicly disclosed prior to the date of the Announcement at any time by any member of the TSB Group is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make the information contained therein not misleading and which was not subsequently corrected before the date of this announcement by disclosure by, or on behalf of, the TSB Group through the publication of an announcement via a Regulatory Information Service (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer); or
  - (ii) any member of the TSB Group is subject to any liability, contingent or otherwise, other than in the ordinary course of business (in each case to an extent which is material in the context of the TSB Group taken as a whole or in the context of the Offer).

## PART 2

### CERTAIN FURTHER TERMS OF THE OFFER

Sabadell reserves the right (subject to the requirements of the Code and the Panel) to waive all or any of the Conditions in paragraphs (b), (c) and (e) to (l) (inclusive) of Part 1, in whole or in part, at its absolute discretion.

Sabadell shall be under no obligation to waive or treat as fulfilled any of the Conditions in paragraphs (a), (c) and (e) to (l) of Part 1 by a date earlier than the latest date specified below for the fulfilment of them notwithstanding that the other Conditions may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.

At such time as the Conditions in paragraphs (a), (b) and (d) of Part 1 have been satisfied, Sabadell will declare the Offer unconditional in all respects unless it has at that time notified the Panel and TSB of some fact or circumstance which entitles (or might reasonably be expected with further investigation to entitle) it to declare the Offer to have lapsed in reliance on some other condition.

The Offer will lapse unless all Conditions to the Offer are fulfilled or (if capable of waiver) waived or, where appropriate, determined by Sabadell to have been or remain satisfied by midnight (London time) on the date which is 21 days after the later of the first closing date and the date on which the Offer becomes or is declared unconditional as to acceptances (or such later date (if any) as Sabadell may, with the consent of the Panel or in accordance with the Code, decide).

If Phase 2 European Commission proceedings are initiated, or there is a Phase 2 CMA Reference (following a referral by the European Commission under Article 9(3) of the EU Merger Regulation to the CMA or otherwise), the Offer will lapse. If the Offer does so lapse, not only will the Offer cease to be capable of further acceptance but also shareholders and Sabadell will thereafter cease to be bound by prior acceptances.

If Sabadell is required by the Panel to make an offer for any TSB Shares under a mandatory offer for TSB Shares under Rule 9 of the Code, Sabadell may make such alterations to the above Conditions as are necessary to comply with the applicable rule or law.

The TSB Shares will be acquired by Sabadell fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature whatsoever and together with all rights attaching to them as at the date of this announcement or subsequently attaching or accruing to them, including, without limitation, voting rights and the right to receive and retain, in full, all dividends and other distributions (if any) declared, made or paid, or any other return of capital (whether by way of reduction of share capital or share premium account or otherwise) made on or after the date of this announcement. Accordingly, insofar as a dividend and/or distribution and/or a return of capital is proposed, declared, made, paid or payable by TSB in respect of an TSB Share on or after the date of this announcement, Sabadell reserves the right to reduce by the amount of the dividend and/or distribution and/or return of capital, the price payable under the Offer in respect of an TSB Share, except insofar as the TSB Share is or will be transferred pursuant to the Offer on a basis which entitles Sabadell alone to receive the dividend and/or distribution and/or return of capital but if that reduction in price has not been effected, the person to whom the Offer Price is paid in respect of that TSB Share, will be obliged to account to Sabadell for the amount of such dividend and/or distribution and/or return of capital.

Save in respect of the Condition contained in paragraph (a) of Part 1, Sabadell may not invoke a Condition so as to cause the Offer not to proceed, to lapse or to be withdrawn unless the circumstances that give rise to the right to invoke the Condition are of material significance to Sabadell in the context of the Offer. The Condition contained in paragraph (a) of Part 1 is not subject to this provision of the Code.

Sabadell reserves the right, subject to the prior consent of the Panel, to implement the Offer by way of a Scheme of Arrangement. In such event, the Offer will be implemented on the same terms, so far as applicable, as those which

would apply under a contractual offer,, subject to appropriate amendments to reflect the change in method of effecting the Offer.

Each of the Conditions shall be regarded as a separate Condition and shall not be limited by reference to any other Condition.

The Offer will be governed by the laws of England and Wales and be subject to the jurisdiction of the Courts of England and Wales and to the Conditions and further terms set out in this announcement and in the Offer Document. The Offer will be subject to the applicable requirements of the UK Listing Authority, the PRA, the FCA, the Financial Services Commission, the CMA, FSMA, the London Stock Exchange, the Code and US federal securities law (except to the extent that exemptive relief has been granted by the SEC). This announcement does not constitute, or form part of, an offer or invitation to purchase TSB Shares or any other securities.

The ability to effect the Offer in respect of persons resident in certain jurisdictions may be affected by the laws of those jurisdictions. Before taking any action in relation to the Offer, holders of TSB Shares should inform themselves about and observe any applicable requirements.

Unless otherwise determined by Sabadell or required by the Code and permitted by applicable law and regulation:

- the Offer is not being, and will not be, made available, directly or indirectly, in or into or by the use of the mails of, or by any other means or instrumentality (including, without limitation, facsimile transmission, telex, telephone, internet or other forms of electronic transmission) of interstate or foreign commerce of, or by any facility of a national state or other securities exchange of any Restricted Jurisdiction and no person may vote using any such use, means, instrumentality or facility or from within any Restricted Jurisdiction; and
- this announcement should not be forwarded or transmitted in or into any jurisdiction in which such act would constitute a violation of the relevant laws in such jurisdiction.

## APPENDIX 2

### GENERAL SOURCES OF INFORMATION AND BASES OF CALCULATION

In this announcement, unless otherwise stated, or the context otherwise requires, the following bases and sources have been used:

- Unless otherwise stated, the financial information relating to Sabadell is extracted (without adjustment) from the audited consolidated financial statements of Sabadell for the relevant years or from the unaudited interim consolidated financial statements of Sabadell for the relevant quarters, prepared in accordance with IFRS.
- Unless otherwise stated, the financial information relating to TSB is extracted (without adjustment) from the audited consolidated financial statements of TSB for the relevant years or from the unaudited interim consolidated financial statements of Sabadell for the relevant half years, prepared in accordance with IFRS.
- The saving numbers are unaudited and are based on analysis by Sabadell's management and on Sabadell's and TSB's internal records.
- Any references to the existing issued share capital of TSB are based on 500,000,000 TSB Shares in issue as at 19 March 2015 (being the last practicable date prior to the release of this announcement).
- Any reference to TSB's book value are based on TSB's book value as at 31 December 2014.
- Unless otherwise stated all prices for TSB Shares are closing prices derived from Bloomberg.

### APPENDIX 3

#### DETAILS OF IRREVOCABLE UNDERTAKINGS

##### Irrevocable undertakings in respect of TSB Shares

The following persons have given irrevocable undertakings to accept the Offer in relation to the following TSB Shares:

Name	Total number of TSB Shares in respect of which the undertaking has been given	Percentage of issued ordinary share capital of TSB
Lloyds Bank plc	200,000,003	40.01%
Paul Pester	1,518	0.000%
Darren Pope	568	0.000%
Will Samuel	42,470	0.008%
Norval Bryson	2,230	0.000%
Dame Sandra Dawson	1,115	0.000%
<b>Total</b>	<b>200,047,904</b>	<b>40.01%</b>

The undertakings given by the TSB Directors in respect of their own shareholdings (and/or those of their close family, as relevant) remain binding in the event of a competing offer being made for TSB. The undertakings given by the TSB Directors will lapse in the event that the Offer Document has not been posted by 17 April 2015 (or within such longer period as Sabadell, with the consent of the Panel, determines, being not more than six weeks after the date of this announcement).

The undertaking given by Lloyds in respect of its own shareholding remains binding unless the Offer lapses. The undertaking given by Lloyds remains binding in the event of a competing offer being made for TSB.

## APPENDIX 4

### DEFINITIONS

The following definitions apply throughout this announcement, unless the context otherwise requires:

<b>BofA Merrill Lynch</b>	Merrill Lynch International
<b>Business Day</b>	a day on which banks are generally open for business in London and Spain (excluding Saturdays, Sundays and public holidays)
<b>Call Option</b>	the call option in favour of Sabadell to acquire from Lloyds up to 100,000,000 TSB Shares (representing 20 per cent. of the fully diluted share capital of TSB)
<b>Closing Price</b>	the price of an TSB Share at the close of business on the day to which such price relates, as derived from Bloomberg in the case of the average Closing Price for the relevant period
<b>Citigroup</b>	Citigroup Global Markets Limited
<b>CMA</b>	the UK Competition and Markets Authority
<b>Code</b>	the City Code on Takeovers and Mergers
<b>Conditions</b>	the conditions to the Offer as set out in Part 1 of Appendix 1
<b>Co-operation Agreement</b>	the agreement between Sabadell and TSB referred to in paragraph 18 of this announcement
<b>Disclosed</b>	<p>the information which has been fairly disclosed:</p> <ul style="list-style-type: none"><li>• by TSB in its published annual report and accounts for the period ended 31 December 2014 or quarterly trading update for the period ended 31 March 2015;</li><li>• in any public announcement made by, or on behalf of, TSB in accordance with the Listing Rules or the Disclosure Rules and Transparency Rules prior to the second Business Day before the date of this announcement;</li><li>• in the prospectus published by TSB in connection with its initial public offering in June 2014;</li><li>• electronically or in writing to the Sabadell Group or its professional advisers during the course of negotiations leading up to this announcement prior to the second Business Day before the date of this announcement; or</li><li>• in this announcement</li></ul>
<b>Disclosure and Transparency Rules</b>	the Disclosure and Transparency Rules of the FCA in its capacity as the UK Listing Authority under FSMA and contained in the UK Listing Authority's publication of the same name

<b>Effective</b>	<ul style="list-style-type: none"> <li>• if the Offer is implemented by way of a contractual offer, the date on which the Offer has been declared or become unconditional in all respects in accordance with the Code; or</li> <li>• if the Offer is implemented by way of a Scheme of Arrangement, the date on which the order of the court sanctioning the scheme under Part 21 of the UK Companies Act becomes effective in accordance with its terms</li> </ul>
<b>EU Merger Regulation</b>	has the meaning given to it in Appendix 1, Part 1, paragraph (b)
<b>FCA</b>	the Financial Conduct Authority
<b>Form of Acceptance</b>	the form of acceptance for use by TSB Shareholders in connection with the Offer
<b>FSMA</b>	Financial Services and Markets Act 2000 (as amended)
<b>Goldman Sachs</b>	Goldman Sachs International
<b>IFRS</b>	international accounting standards and international financial reporting standards and interpretations thereof, approved or published by the International Accounting Standards Board and adopted by the European Union
<b>IPO</b>	initial public offering
<b>Lloyds</b>	Lloyds Bank plc a company incorporated under the laws of England and Wales with registered number 00002065, whose registered office is 25 Gresham Street, London, EC2V 7HN
<b>Lloyds Bonus Shares</b>	has the meaning given to it in paragraph 17
<b>London Business Day</b>	a day on which banks are generally open for business in London (excluding Saturdays, Sundays and public holidays)
<b>London Stock Exchange</b>	London Stock Exchange plc
<b>Panel</b>	the UK Panel on Takeovers and Mergers
<b>Phase II CMA Reference</b>	the CMA making a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 pursuant to Clause 33 of the Enterprise Act 2002 (as amended) or a public interest intervention notice being issued by the Secretary of State for Business, Innovation and Skills under section 42(2) of the Enterprise Act 2002 (as amended)
<b>Phase 2 European Commission Proceedings</b>	where the Commission initiates proceedings pursuant to Article 6(1)(c), under Article 8(1) or 8(2) of the EU Merger Regulation
<b>PRA</b>	Prudential Regulation Authority
<b>PRA Condition</b>	the Condition set out in paragraph 1(d) in Part 1 of Appendix 1
<b>Offer</b>	the proposed offer for TSB by Sabadell
<b>Offer Document</b>	the document to be sent to TSB Shareholders containing the terms and conditions of the Offer

<b>Offer Period</b>	the offer period (as defined in the Code) relating to TSB, which commenced on 12 March 2015
<b>Official List</b>	the Official List of the FCA
<b>RBC Capital Markets</b>	RBC Europe Limited
<b>Relevant Authority</b>	has the meaning given to it in Appendix 1, Part 1, paragraph (e)
<b>Restricted Jurisdiction</b>	any jurisdiction where local laws or regulations may result in significant risk of civil, regulatory or criminal exposure if information concerning the Offer is sent or made available to TSB Shareholders in that jurisdiction (in accordance with Rule 30.3 of the Code)
<b>Rothschild</b>	N. M. Rothschild & Sons Limited
<b>Sabadell</b>	Banco de Sabadell S.A., a company incorporated under the laws of Spain and registered with the Mercantile Register in Barcelona (Fiscal Identification Number (NIF) A08000143), whose registered office is Pl. Sant Roc, 20 08201-Sabadell
<b>Sabadell Directors</b>	the directors of Sabadell, as at the date of this announcement
<b>Sabadell Group</b>	Sabadell and its subsidiary undertakings and associated undertakings
<b>Scheme of Arrangement</b>	a scheme of arrangement under Part 26 of the UK Companies Act which may be proposed by TSB to TSB Shareholders in connection with the Offer, with or subject to any modification, addition or condition approved or imposed by the Court and agreed by Sabadell and TSB
<b>SEC</b>	US Securities and Exchange Commission
<b>Significant Interest</b>	in relation to an undertaking, a direct or indirect interest of 20 per cent. or more of (i) the total voting rights conferred by the equity share capital (as defined in section 548 of the UK Companies Act) of such undertaking or (ii) the relevant partnership interest
<b>SME</b>	small to medium sized enterprises with an annual turnover of up to £25 million
<b>TSB</b>	TSB Banking Group plc, a company incorporated under the laws of England and Wales with registered number 08871766 and registered address 20 Gresham Street, London, EC2V 7JE
<b>TSB Directors</b>	the directors of TSB, as at the date of this announcement
<b>TSB Group</b>	TSB and its subsidiary undertakings and associated undertakings
<b>TSB Shareholders</b>	holders of TSB Shares
<b>TSB Shares</b>	ordinary shares of one pence each in the capital of TSB
<b>TSB Share Plans</b>	the share schemes operated by the TSB Group, being the TSB 2014 Share Plan, the rules applicable to the TSB Sustainable Performance Awards, the rules applicable to the TSB Transitional Awards, the TSB Sharesave Scheme 2014 and the TSB Share Incentive Plan 2014

<b>UBS</b>	UBS Limited
<b>UK or United Kingdom</b>	the United Kingdom of Great Britain and Northern Ireland
<b>UK Companies Act</b>	Companies Act 2006 (as amended)
<b>US or United States</b>	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
<b>US Exchange Act</b>	US Securities Exchange Act of 1934 (as amended)
<b>US Securities Act</b>	US Securities Act of 1933 (as amended)
<b>£, p, pence, Sterling, GBP or £</b>	the lawful currency of the United Kingdom from time to time

For the purposes of this announcement, “subsidiary”, “subsidiary undertaking”, “undertaking” and “associated undertaking” have the respective meanings given by the UK Companies Act.

References to an enactment include references to that enactment as amended, replaced, consolidated or re-enacted by or under any other enactment before or after the date of this announcement.

All references to time in this announcement are to London time unless otherwise stated.