

Rating Action: Moody's affirms the ratings of TSB Bank plc and TSB Banking Group plc

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Outlook on deposits and issuer ratings of TSB Bank changed to stable

London, 25 April 2016 -- Moody's Investors Service has today affirmed all ratings of TSB Bank plc (TSB) and TSB Banking Group plc. The outlook on TSB's Baa2 deposits and issuer ratings has been changed to stable from positive. Moody's has also affirmed the bank's counterparty risk assessment (CRA) at A2(cr) / P1(cr). TSB's standalone baseline credit assessment (BCA) and adjusted BCA at baa2 were unaffected by today's rating action.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

Moody's assigned a positive outlook in July 2015 to the first time deposit and issuer ratings of TSB in anticipation of the potential issue of long-term senior unsecured debt by its parent TSB Banking Group. The holdco debt would have been structurally subordinated to junior depositors of the bank as well as to any potential senior unsecured issues by the bank itself. However, the bank does not now expect to issue the debt in the near future and as a result its liability structure is not likely to change in line with our previous expectations. Since the level of protection for the depositors and potential senior unsecured investors of the bank is likely to remain unchanged over the next 12 months, Moody's decided to affirm the deposit and issuer ratings at Baa2 and to change the outlook to stable from positive.

TSB's deposit and issuer ratings are based on the bank's standalone baseline credit assessment (BCA), which has not changed and remains at baa2, together with Moody's LGF Analysis.

RATIONALE FOR THE STABLE OUTLOOK

The outlook is stable reflecting Moody's expectation that the BCA is unlikely to change over the short- to medium-term, and moreover the liability structure is unlikely to vary sufficiently to result in a different level of loss-given-failure for rated instruments and hence a changed rating.

WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade in the bank's deposits and issuer ratings of the operating company could be triggered by the issue of senior or subordinated debt instruments at the holding company, which would provide protection to depositors and creditors. An upgrade in the BCA driven by a longer track record, reduced execution risk and improved levels of profitability could also lead to an upgrade of all ratings. Any such movement in TSB's BCA would however continue to be constrained by the BCA of TSB's parent Banco Sabadell, S.A. (Baa3 (deposits)/Ba1 (senior unsecured) stable, ba3).

Conversely, a downgrade of TSB's rating could be driven by a deterioration in the bank's asset quality, which could in turn pressure capital. Sizable losses or successive periods of low/negative profits due to failure to achieve a low cost base while increasing revenues would also put pressure on the ratings. Negative pressure could also arise from higher than expected deterioration in the bank's liquidity and profitability metrics. Any increasing linkages between TSB and its parent, could also lead to a reassessment of the rating relative to the ratings of Banco Sabadell. In the absence of an upgrade of Banco Sabadell's BCA, this situation could result in negative rating pressure for the bank's ratings.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: TSB Bank plc

...LT Issuer Rating (Domestic), Affirmed Baa2, outlook change to Stable from Positive
...LT Deposit Rating (Local Currency), Affirmed Baa2, outlook change to Stable from Positive
...ST Bank Deposits (Local Currency), Affirmed P-2
...Counterparty Risk Assessment, Affirmed P-1(cr)
...Counterparty Risk Assessment, Affirmed A2(cr)

Outlook Actions:

...Outlook, Changed To Stable From Positive
..Issuer: TSB Banking Group plc
... LT Issuer Rating (Domestic), Affirmed Baa3, outlook maintained Stable
...Subordinate Regular Bond/Debenture (Local Currency), Affirmed Baa3

Outlook Actions:

...Outlook, maintained Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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