



TESCO PERSONAL FINANCE PLC

(incorporated with limited liability under the laws of Scotland)

£2,000,000,000 Euro Note Programme

Under this £2,000,000,000 Euro Note Programme (the **Programme**) Tesco Personal Finance PLC (the **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined on page 2).

An investment in Notes issued under the Programme involves certain risks. For a description of these risks, see "Risk Factors" below.

Application has been made to the Financial Services Authority (the **UK Listing Authority**) in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the **FSMA**) for Notes issued during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange's regulated market. References in this Offering Circular to Notes being "listed" (and all related references) shall either mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List or shall be construed in a similar manner in respect of any other EEA State Stock Exchange, as applicable. The expression "EEA State" when used in this Offering Circular has the meaning given to such term in the FSMA (as defined above). The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain information which is applicable to each Tranche (as defined on page 60) of Notes will be set forth in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and to the London Stock Exchange on or before the date of issue of the Notes of such Tranche or such later date as the UK Listing Authority and the London Stock Exchange may agree. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service.

The Issuer may also issue Notes that are admitted to trading through the electronic order book for retail bonds (**ORB**) of the London Stock Exchange. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arranger
Citigroup

Dealers

Barclays
Citigroup
HSBC

BNP PARIBAS
Deutsche Bank
J.P. Morgan Cazenove

The date of this Offering Circular is 31st October, 2012.

IMPORTANT INFORMATION

This Offering Circular comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**).

The Notes may be issued on a continuing basis to one or more of the Dealers specified on page 118 and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a **Dealer** and together the **Dealers**). References in this Offering Circular to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

The Notes of each Tranche will initially be represented by a temporary global Note or a permanent global Note, in each case as specified in the relevant Final Terms which will be deposited on the issue date thereof with a common safekeeper or common depository for Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and Euroclear Bank S.A./N.V. (**Euroclear**) and/or any other agreed clearing system. A temporary global Note will be exchangeable, as specified in the applicable Final Terms, for either a permanent global Note or Notes in definitive form, in each case upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. A permanent global Note will be exchangeable for Notes in definitive form either upon request or only upon an Exchange Event (as specified in the applicable Final Terms), all as further described in “Form of the Notes” below. If so specified in the applicable Final Terms, following the delivery of an issue of Notes into Euroclear or Clearstream, Luxembourg, investors may also hold interests in the Notes through Euroclear UK & Ireland Limited (formerly known as CRESTCo Limited) (**CREST**) through the issuance of dematerialised depository interests (**CREST Depository Interests** or **CDIs**), issued, held, settled and transferred through CREST, representing interests in the relevant Notes underlying the CDIs (the **Underlying Notes**). CREST Depository Interests are independent securities distinct from the Notes, constituted under, and governed by, English law and transferred through CREST and will be issued by CREST Depository Limited (the **CREST Depository**) pursuant to the global deed poll dated 25th June, 2001 (as subsequently modified, supplemented and/or restated) (the **CREST Deed Poll**).

The Issuer accepts responsibility for the information contained in this Offering Circular and any Final Terms. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below). This Offering Circular shall be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular.

Copies of the Final Terms will be available from the registered office of the Issuer and the specified office of each of the Paying Agents (as defined on page 60) (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market in any Member State of the European Economic Area nor offered to the public in any Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be obtainable by a holder of such Note and such holder must produce evidence satisfactory to the Issuer or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity), and copies of Final Terms relating to Notes which are admitted to trading on the London Stock Exchange’s regulated market and/or offered in the United Kingdom in circumstances where a prospectus is required to be published under the Prospectus Directive will also be available on the website of the Regulatory News Service operated by the London Stock Exchange.

Save for the Issuer, no other party has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Dealer or the Trustee (as defined on page 60) as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme. No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme

or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any Dealer, the Arranger or the Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or as constituting an invitation or offer by the Issuer, any Dealer, the Arranger or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer by or on behalf of the Issuer or any of the Dealers or the Arranger or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date indicated in the document containing the same. The Dealers, the Arranger and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. When deciding whether or not to purchase Notes of any Tranche, investors should review, *inter alia*, the documents incorporated by reference into this Offering Circular and any supplement to this Offering Circular (including the Final Terms relating to such Tranche, but not including any other Final Terms).

IMPORTANT INFORMATION RELATING TO PUBLIC OFFERS OF NOTES

Restrictions on Public Offers of Notes in Relevant Member States

Certain Tranches of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) may be offered in circumstances where there is no exemption from the obligation under the Prospectus Directive to publish a prospectus. Any such offer is referred to as a **Public Offer**. This Offering Circular has been prepared on a basis that permits Public Offers of Notes. However, any person making or intending to make a Public Offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) may only do so if this Offering Circular has been approved by the competent authority in that Relevant Member State (or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State) and published in accordance with the Prospectus Directive, provided that the Issuer has consented to the use of this Offering Circular in connection with such offer as provided under "*Consent given in accordance with Article 3.2 of the Prospectus Directive (Retail Cascades)*" and the terms of that consent are complied with by the person (the **Offeror**) making the Public Offer of such Notes.

Save as provided above, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any Public Offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

Consent given in accordance with Article 3.2 of the Prospectus Directive (Retail Cascades)

Any person (an **Investor**) intending to acquire or acquiring any Notes from any Offeror other than the Issuer or a relevant Dealer should be aware that, in the context of a Public Offer of such Notes, the Issuer will be responsible to the Investor for this Offering Circular under section 90 of the FSMA only if the Issuer has consented to the use of this Offering Circular by that Offeror to make the Public Offer to the Investor. None of the Issuer or any Dealer makes any representation as to the compliance by that Offeror with any applicable conduct of business rules or other applicable regulatory or securities law requirements in relation to any Public Offer and none of the Issuer or any Dealer has any responsibility or liability for the actions of that Offeror. **Save as provided below, neither the Issuer nor any Dealer has authorised the making of any Public Offer by any Offeror or consented to the use of this Offering Circular by any other person in connection with any Public Offer of Notes. Any Public Offer made without the consent of the Issuer is unauthorised and neither the Issuer nor any Dealer accepts any responsibility or liability for the actions of the persons making any such unauthorised offer.** If the Issuer has not consented to the use of this Offering Circular by an Offeror, the Investor should check with the Offeror whether anyone is responsible for this Offering Circular for the purposes of section 90 of the FSMA in the

context of the Public Offer and, if so, who that person is. If the Investor is in any doubt about whether it can rely on this Offering Circular and/or who is responsible for its contents it should take legal advice.

In connection with each Tranche of Notes, and provided that the applicable Final Terms specifies an Offer Period, the Issuer consents to the use of this Offering Circular in connection with a Public Offer of such Notes subject to the following conditions:

- (i) the consent is only valid during the Offer Period so specified;
- (ii) the only Offerors authorised to use this Offering Circular to make the Public Offer of the relevant Tranche of Notes are the relevant Dealer and either:
 - (a) if the applicable Final Terms names financial intermediaries authorised to offer the Notes, the financial intermediaries so named and/or (ii) if the Issuer appoints additional financial intermediaries after the date of the applicable Final Terms and publishes details of them on its website, each financial intermediary whose details are so published; or
 - (b) if specified in the applicable Final Terms, any financial intermediary which is authorised to make such offers under Directive 2004/39/EC (the Markets in Financial Instruments Directive) which states on its website that it is relying on this Offering Circular to offer the relevant Tranche of Notes during the Offer Period;
- (iii) the consent only extends to the use of this Offering Circular to make Public Offers of the relevant Tranche of Notes in Ireland and/or the United Kingdom, as specified in the applicable Final Terms; and
- (iv) the consent is subject to any other conditions set out in Part B of the applicable Final Terms.

Any Offeror falling within sub-paragraph (ii)(b) above who meets all of the other conditions stated above and wishes to use this Offering Circular in connection with a Public Offer is required, for the duration of the relevant Offer Period, to publish on its website that it is relying on this Offering Circular for such Public Offer with the consent of the Issuer.

The consent referred to above relates to Offer Periods occurring within 12 months from the date of this Offering Circular. The Issuer accepts responsibility, in the jurisdictions to which the consent to use the Offering Circular extends, for the content of this Offering Circular in relation to any Investor who acquires any Notes in a Public Offer made by any person to whom consent has been given to use this Offering Circular in that connection in accordance with the preceding paragraph, provided that such Public Offer has been made in accordance with all the conditions attached to that consent.

The only Relevant Member States which may, in respect of any Tranche of Notes, be specified in the applicable Final Terms (if any Relevant Member States are so specified) will be Ireland and/or the United Kingdom, and accordingly each Tranche of Notes may only be offered to Investors as part of a Public Offer in Ireland and/or the United Kingdom, as specified in the applicable Final Terms, or otherwise in circumstances in which no obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

AN INVESTOR INTENDING TO ACQUIRE OR ACQUIRING ANY NOTES IN A PUBLIC OFFER FROM AN OFFEROR OTHER THAN THE ISSUER WILL DO SO, AND OFFERS AND SALES OF SUCH NOTES TO AN INVESTOR BY SUCH OFFEROR WILL BE MADE, IN ACCORDANCE WITH ANY TERMS AND OTHER ARRANGEMENTS IN PLACE BETWEEN SUCH OFFEROR AND SUCH INVESTOR INCLUDING AS TO PRICE, ALLOCATIONS AND SETTLEMENT ARRANGEMENTS. THE ISSUER WILL NOT BE A PARTY TO ANY SUCH ARRANGEMENTS WITH SUCH INVESTORS IN CONNECTION WITH THE PUBLIC OFFER OR SALE OF THE NOTES CONCERNED AND, ACCORDINGLY, THIS OFFERING CIRCULAR AND ANY FINAL TERMS WILL NOT CONTAIN SUCH INFORMATION. THE INVESTOR MUST LOOK TO THE OFFEROR AT THE TIME OF SUCH OFFER FOR THE PROVISION OF SUCH INFORMATION AND THE OFFEROR WILL BE RESPONSIBLE FOR SUCH INFORMATION. NONE OF THE ISSUER OR ANY DEALER HAS ANY RESPONSIBILITY OR LIABILITY TO AN INVESTOR IN RESPECT OF SUCH INFORMATION.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS OFFERING CIRCULAR AND OFFERS OF NOTES GENERALLY

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain

jurisdictions. The Issuer, the Dealers, the Arranger and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Final Terms, no action has been taken by the Issuer, the Dealers, the Arranger or the Trustee which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction (other than the United Kingdom) where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations, and the Dealers have represented or, as the case may be, will be required to represent that all offers and sales by them will be made on the same terms. Persons into whose possession this Offering Circular or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States of America, the European Economic Area (including the United Kingdom and the Republic of France) and Japan (see "Subscription and Sale" below).

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and include Notes in bearer form that are subject to certain U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States of America or to U.S. persons (see "Subscription and Sale" below).

The applicable Final Terms of each Tranche of Notes will specify whether that Tranche of Notes is intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Notes are intended upon issue to be delivered to one of Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

PRESENTATION OF INFORMATION

In this Offering Circular, all references to:

- **Sterling** and **£** refer to the currency of the United Kingdom;
- **U.S. dollars, U.S.\$** and **\$** refer to the currency of the United States of America;
- **Swiss francs** refer to the currency of Switzerland; and
- **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the **Stabilising Manager(s)**), (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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Summary of the Programme

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7). This Summary contains all the Elements required to be included in a summary for the Notes and the Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in a summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element should be included in the summary with the mention of “not applicable”.

Section A – Introduction and warnings	
Element	
A.1	<p>This summary must be read as an introduction to the Offering Circular and the applicable Final Terms. Any decision to invest in any Notes should be based on a consideration of the Offering Circular as a whole, including any documents incorporated by reference, and the applicable Final Terms. Where a claim relating to information contained in the Offering Circular and the applicable Final Terms is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Offering Circular and the applicable Final Terms before the legal proceedings are initiated. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the Issuer in any such Member State solely on the basis of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the Offering Circular and the applicable Final Terms or it does not provide, when read together with the other parts of the Offering Circular and the applicable Final Terms, key information (as defined in Article 2.1(s) of the Prospectus Directive) in order to aid investors when considering whether to invest in the Notes.</p>
A.2	<p>Certain Tranches of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) may be offered in circumstances where there is no exemption from the obligation under the Prospectus Directive to publish a prospectus. Any such offer is referred to as a Public Offer.</p> <p>[Not Applicable; the Notes are issued in denominations of at least €100,000 (or its equivalent in any other currency).]</p> <p>[The Issuer consents to the use of the Offering Circular in connection with a Public Offer of the Notes subject to the following conditions:</p> <ul style="list-style-type: none"> (i) the consent is only valid during the period from [[] until [[]/[the Issue Date]]/[the date which falls • Business Days thereafter]] (the Offer Period); (ii) the only Offerors authorised to use the Offering Circular to make the Public Offer of the Notes are the relevant [Dealer/Manager] and [(i) • [and •] and/or (ii) if the Issuer appoints additional financial intermediaries after • (being the date of the Final Terms) and publishes details of them on its website, each financial intermediary whose details are so published]/[any financial intermediary which is authorised to make such an offer under Directive 2004/39/EC (the Markets in Financial Instruments Directive), which acknowledges on its website that it is relying on the Offering Circular to offer the Notes during the Offer Period]; [and] (iii) the consent only extends to the use of the Offering Circular to make Public Offers of the Notes in • [and •]; [and] <p>[(iv) the consent is subject to the following other condition[s]: [].]</p> <p>[Any Offeror falling within sub-paragraph (ii) above who meets all of the other conditions stated above and wishes to use the Offering Circular in connection with a Public Offer is required, at the relevant time, to publish on its website that it is relying on the Offering Circular for such Public Offer with the consent of the Issuer.]</p> <p>AN INVESTOR INTENDING TO ACQUIRE OR ACQUIRING ANY NOTES IN A PUBLIC OFFER FROM AN OFFEROR OTHER THAN THE ISSUER WILL DO SO, AND OFFERS AND SALES OF SUCH NOTES TO AN INVESTOR BY SUCH OFFEROR WILL BE MADE, IN ACCORDANCE WITH ANY TERMS AND OTHER ARRANGEMENTS IN PLACE BETWEEN SUCH OFFEROR AND SUCH INVESTOR INCLUDING AS TO PRICE, ALLOCATIONS AND SETTLEMENT ARRANGEMENTS. THE INVESTOR MUST LOOK TO THE OFFEROR AT THE TIME OF SUCH OFFER FOR THE PROVISION OF SUCH INFORMATION AND THE OFFEROR WILL BE RESPONSIBLE FOR SUCH INFORMATION. NONE OF THE ISSUER OR ANY</p>

DEALER HAS ANY RESPONSIBILITY OR LIABILITY TO AN INVESTOR IN RESPECT OF SUCH INFORMATION.]

Section B – Issuer

Element	Title																																																								
B.1	Legal and commercial name of the Issuer	The legal name of the Issuer is Tesco Personal Finance PLC. The commercial name of the Issuer is Tesco Bank.																																																							
B.2	Domicile/legal form/legislation/ country of incorporation	The Issuer was incorporated in Scotland under the name Roboscot (27) Limited on 5th March, 1997, as a private limited company with limited liability. It changed its name to Tesco Personal Finance Limited with effect from 25th April, 1997. It was re-registered as a public limited company under the legal name Tesco Personal Finance PLC pursuant to the Companies Act 1985 on 22nd December, 2008.																																																							
B.4b	Trend information	Not Applicable; there are no known trends affecting the Issuer and the industries in which it operates.																																																							
B.5	Description of the Group	The Issuer is a wholly owned subsidiary of Tesco Personal Finance Group Limited (TPFG). TPFG in turn is a wholly owned subsidiary of Tesco PLC (Tesco), the holding company of the Tesco group of companies (the Tesco Group).																																																							
B.9	Profit forecast or estimate	Not Applicable; The Issuer has made no profit forecasts or estimates.																																																							
B.10	Audit report qualifications	Not Applicable; there are no qualifications contained within: (i) the audit report relating to the historical financial information of the Issuer, its subsidiaries and associated undertaking (together, the Group) for the 12 months ended 29th February, 2012; and (ii) the audit report relating to the historical financial information of the Issuer for the 12 months ended 28th February, 2011.																																																							
B.12	Selected historical key financial information:	<p><i>Income Statement, Statement of Comprehensive Income</i></p> <p>The tables below set out the Issuer's audited consolidated income statement and statement of comprehensive income for the two financial years ended 29th February, 2012 and 28th February, 2011 and the Issuer's unaudited consolidated income statement and statement of comprehensive income for the two interim periods of six months ended 31st August, 2012 and 31st August, 2011. This information has been extracted without material adjustment from the Issuer's audited consolidated financial statements for the 12 months ended 29th February, 2012 and from the Issuer's unaudited interim financial statements for the six months ended 31st August, 2012.</p> <p><i>Consolidated Income Statement</i></p> <table border="1"> <thead> <tr> <th></th> <th colspan="2">Audited</th> <th colspan="2">Unaudited</th> </tr> <tr> <th></th> <th>12 months to 29th February 2012*</th> <th>12 months to 28th February 2011 Comparison†</th> <th>6 months to 31st August 2012*</th> <th>6 months to 31st August 2011 Comparison†</th> </tr> <tr> <th></th> <th>£'000</th> <th>£'000</th> <th>£'000</th> <th>£'000</th> </tr> </thead> <tbody> <tr> <td>Interest and similar income</td> <td>425,647</td> <td>420,161</td> <td>204,865</td> <td>213,277</td> </tr> <tr> <td>Interest expense and similar charges</td> <td>(166,601)</td> <td>(147,128)</td> <td>(89,016)</td> <td>(79,182)</td> </tr> <tr> <td>Net Interest Income.....</td> <td>259,046</td> <td>273,033</td> <td>115,849</td> <td>134,095</td> </tr> <tr> <td>Fees and commissions income.....</td> <td>517,920</td> <td>285,731</td> <td>259,940</td> <td>260,411</td> </tr> <tr> <td>Fees and commissions expense</td> <td>(22,530)</td> <td>(20,291)</td> <td>(11,401)</td> <td>(10,856)</td> </tr> <tr> <td>Provision for customer redress.....</td> <td>(57,400)</td> <td>50,000</td> <td>(30,000)</td> <td>(57,400)</td> </tr> <tr> <td>Other income.....</td> <td>–</td> <td>–</td> <td>30,000</td> <td>–</td> </tr> <tr> <td>Net Fees and commissions income</td> <td>437,990</td> <td>315,440</td> <td>248,539</td> <td>192,155</td> </tr> </tbody> </table>		Audited		Unaudited			12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†		£'000	£'000	£'000	£'000	Interest and similar income	425,647	420,161	204,865	213,277	Interest expense and similar charges	(166,601)	(147,128)	(89,016)	(79,182)	Net Interest Income	259,046	273,033	115,849	134,095	Fees and commissions income.....	517,920	285,731	259,940	260,411	Fees and commissions expense	(22,530)	(20,291)	(11,401)	(10,856)	Provision for customer redress.....	(57,400)	50,000	(30,000)	(57,400)	Other income.....	–	–	30,000	–	Net Fees and commissions income	437,990	315,440	248,539	192,155
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Fees and commissions income.....	517,920	285,731	259,940	260,411																																																					
Fees and commissions expense	(22,530)	(20,291)	(11,401)	(10,856)																																																					
Provision for customer redress.....	(57,400)	50,000	(30,000)	(57,400)																																																					
Other income.....	–	–	30,000	–																																																					
Net Fees and commissions income	437,990	315,440	248,539	192,155																																																					

	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†
	£'000	£'000	£'000	£'000
Gains/(Losses) on financial assets.....	498	(610)	2,629	266
Realised gain on investment securities.....	4,749	564	7,557	392
.....	5,247	(46)	10,186	658
Total Income	702,283	588,427	374,574	326,908
Administrative expenses	(378,945)	(306,519)	(204,341)	(198,519)
Depreciation and amortisation	(44,545)	(19,391)	(29,530)	(20,877)
Operating expenses	(423,490)	(325,910)	(233,871)	(219,396)
Impairment	(124,511)	(131,356)	(42,785)	(66,115)
Share of profit or (loss) of associate	5,269	(6,821)	7,354	4,205
.....	(119,242)	(138,177)	(35,431)	(61,910)
Profit before tax	159,551	124,340	105,272	45,602
Taxation	(39,561)	(37,794)	(23,056)	(10,780)
Profit attributable to owners of the parent.....	119,990	86,546	82,216	34,822

Consolidated Statement of Comprehensive Income

	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†
	£'000	£'000	£'000	£'000
Profit	119,990	86,546	82,216	34,822
Net gains/(losses) on available for sale investment securities:				
Unrealised net gains/(losses) during year, before tax.....	9,473	2,243	(5,797)	4,078
Cash flow hedges:				
Net gains arising on hedges recognised in other comprehensive income, before tax.....	276	1,099	-	132
Tax relating to components of other comprehensive income	(2,495)	(938)	1,662	(1,029)
Share of other comprehensive income of associate	3,205	-	6,173	-
Total comprehensive income attributable to owners of the parent	130,449	88,950	84,254	38,003

Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement

The tables below set out the Issuer's audited consolidated statement of financial position as at 29th February, 2012 and 28th February, 2011, the Issuer's unaudited consolidated statement of financial position as at 31st August, 2012 and 31st August, 2011, the Issuer's audited consolidated statement of changes in equity and cash flow statement for the two financial years ended 29th February, 2012 and 28th February, 2011 and the Issuer's unaudited consolidated statement of changes in equity and cash flow statement for the two interim periods of six months ended 31st August, 2012 and 31st August, 2011. This information has been extracted without material adjustment from the Issuer's audited consolidated financial statements for the 12 months ended 29th February, 2012 and, with respect to the six month figures, from the Issuer's unaudited consolidated financial statements for the interim period of six months ended 31st August, 2012:

Consolidated Statement of Financial Position

	Audited		Unaudited	
	As at 29th February 2012*	As at 28th February 2011 Comparison [†]	As at 31st August 2012*	As at 31st August 2011 Comparison [†]
	£'000	£'000	£'000	£'000
Assets				
Cash and balances with central banks.....	455,809	136,848	1,000,103	398,264
Loans and advances to banks.....	93,132	403,598	150,447	—
Loans and advances to customers	4,423,582	4,679,184	4,535,556	4,585,701
Derivative financial instruments	19,522	16,378	36,369	12,397
Investment securities:				
— Available for sale	1,302,731	849,831	834,889	1,138,083
— Loans and receivables	292,931	292,931	300,083	292,931
Prepayments and accrued income	43,360	79,491	47,217	89,246
Other assets	454,815	142,668	455,719	378,382
Investment in associate	72,459	63,985	100,291	68,191
Intangible assets.....	336,995	215,275	374,151	290,426
Property, plant and equipment.....	109,807	111,373	98,569	99,765
Total assets	7,605,143	6,991,562	7,933,394	7,353,386
Liabilities				
Deposits from banks	77,706	36,200	5,100	120,789
Deposits from customers.....	5,389,787	5,077,464	5,435,867	5,126,323
Debt securities in issue	197,849	350,031	409,053	359,546
Derivative financial instruments	71,186	37,369	68,890	65,577
Provisions for liabilities and charges.....	78,341	39,477	82,745	92,318
Accruals and deferred income	132,370	185,151	137,712	174,468
Current tax liability.....	2,969	2,789	12,460	10,176
Other liabilities	106,139	18,067	104,951	73,819
Deferred tax liability	28,770	5,022	26,670	6,326
Subordinated liabilities	330,000	190,000	330,000	190,000
Total liabilities	6,415,117	5,941,570	6,613,448	6,219,342
Equity:				
Shareholders' funds:				
— Share capital.....	103,490	92,340	107,990	97,340
— Share premium account	931,410	831,060	971,910	876,060
— Retained earnings.....	90,244	79,341	171,967	110,212
— Other reserves	19,882	2,251	23,079	5,432
Subordinated notes.....	45,000	45,000	45,000	45,000
Total equity	1,190,026	1,049,992	1,319,946	1,134,044
Total liabilities and equity	7,605,143	6,991,562	7,933,394	7,353,386

Consolidated Statement of Changes in Equity

	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†
	£'000	£'000	£'000	£'000
Balance at the beginning of the year/period				
Share capital	92,340	47,790	103,490	92,340
Share premium	831,060	430,110	931,410	831,060
Retained earnings	79,341	155,799	90,244	79,341
Subordinated Notes	45,000	45,000	45,000	45,000
Other reserves	2,251	(153)	19,882	2,251
Non-controlling interest	–	2,005	–	–
Total	<u>1,049,992</u>	<u>680,551</u>	<u>1,190,026</u>	<u>1,049,992</u>
Comprehensive income				
Profit for the year/period				
Retained earnings	119,990	86,546	82,216	34,822
Total	<u>119,990</u>	<u>86,546</u>	<u>82,216</u>	<u>34,822</u>
Net gains/(losses) on available for sale investment securities				
Other reserves	7,053	1,615	(4,135)	3,086
Total	<u>7,053</u>	<u>1,615</u>	<u>(4,135)</u>	<u>3,086</u>
Net gains on cash flow hedges				
Other reserves	201	789	–	95
Total	<u>201</u>	<u>789</u>	<u>–</u>	<u>95</u>
Share of other comprehensive income of associate				
Other reserves	3,205	–	6,173	–
Total	<u>3,205</u>	<u>–</u>	<u>6,173</u>	<u>–</u>
Total comprehensive income	<u>130,449</u>	<u>88,950</u>	<u>84,254</u>	<u>38,003</u>
	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†
	£'000	£'000	£'000	£'000
Transactions with owners				
Shares issued in year/period				
Share capital	11,150	44,550	4,500	5,000
Share premium	100,350	400,950	40,500	45,000
Total	<u>111,500</u>	<u>445,500</u>	<u>45,000</u>	<u>50,000</u>
Dividends to ordinary shareholders				
Retained earnings	(108,150)	(162,150)	–	(3,500)
Total	<u>(108,150)</u>	<u>(162,150)</u>	<u>–</u>	<u>(3,500)</u>
Dividends to holders of other equity holders				
Retained earnings	(937)	(854)	(493)	(451)
Non-controlling interest	–	(2,005)	–	–
Total	<u>(937)</u>	<u>(2,859)</u>	<u>(493)</u>	<u>(451)</u>
Share based payments				
Other reserves	7,172	–	1,159	–
Total	<u>7,172</u>	<u>–</u>	<u>1,159</u>	<u>–</u>
Total transactions with owners	<u>9,585</u>	<u>280,491</u>	<u>45,666</u>	<u>46,049</u>

	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†
	£'000	£'000	£'000	£'000
Balance at the end of the year/period				
Share capital	103,490	92,340	107,990	97,340
Share premium	931,410	831,060	971,910	876,060
Retained earnings	90,244	79,341	171,967	110,212
Subordinated Notes	45,000	45,000	45,000	45,000
Other reserves	19,882	2,251	23,079	5,432
Total	1,190,026	1,049,992	1,319,946	1,134,044
Consolidated Cash Flow Statement				
	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†
	£'000	£'000	£'000	£'000
Operating activities				
Profit before taxation	159,551	124,340	105,272	45,602
Adjusted for:				
Non-cash items included in operating profit				
before taxation	239,036	100,981	86,332	142,043
Changes in operating assets and liabilities	230,329	163,781	(180,017)	(18,910)
Income taxes paid	(18,128)	(5,275)	(14,002)	(3,117)
Cash flows from operating activities	610,788	383,827	(2,415)	165,618
Investing activities				
Purchase of non-current assets	(165,431)	(206,586)	(79,613)	(94,248)
Purchase of available for sale investment securities	(729,368)	(424,357)	(30,922)	(337,735)
Sale of available for sale investment securities	183,072	165,756	461,885	29,171
Loan to associate	–	(34,431)	(7,152)	–
Investment in associate	–	(68,851)	(14,305)	–
Cash flows from investing activities	(711,727)	(568,469)	329,893	(402,812)
	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†
	£'000	£'000	£'000	£'000
Financing activities				
Proceeds from issue of debt securities	59,587	125,559	198,401	–
Proceeds from issue of subordinated liabilities	140,000	–	–	–
Redemption of own debt securities	(225,000)	–	–	–
Proceeds from issue of share capital	111,500	445,500	45,000	50,000
Dividends paid to ordinary share holders	(108,150)	(162,150)	–	(3,500)
Dividends paid to non controlling interest	–	(2,005)	–	–
Dividends paid to holders of other equity	(673)	(714)	(507)	(444)
Interest paid on subordinated liabilities	(3,712)	(2,783)	(4,026)	(1,672)
Cash flows from financing activities	(26,448)	403,407	238,868	44,384
Net (decrease)/increase in cash and cash equivalents	(127,387)	218,765	566,346	(192,810)
Cash and cash equivalents at the beginning of the year/period	706,263	487,498	578,876	706,342
Cash and cash equivalents at the end of the year/period	578,876	706,263	1,145,222	513,532
* During the financial year ended 29th February, 2012, the Issuer concluded that it was no longer appropriate for the Issuer to utilise the exemption available to the Issuer under International Accounting Standards (IAS) 27 'Consolidated and separate financial statements' and the Companies Act 2006, from the requirement to prepare group accounts. As a result, the Issuer's financial statements for the year ended 29th February, 2012 and for the six months ended 31st August, 2012 were prepared on a consolidated basis for the Group.				
† As a result of the Issuer preparing its financial statements for the year ended 29th February, 2012 and for the six months ended 31st August, 2012 on a consolidated basis for the Group, the Issuer prepared comparative balances for the year ended 28th February, 2011 on a consolidated basis for the Group and for the six months ended 31st August, 2011 on a consolidated basis for the Group. The comparative balances of the Group for the year ended 28th February, 2011 were prepared on the same basis as the financial statements of the Group for the year ended 29th February, 2012 (i.e. prepared on the basis that it was no longer appropriate for the Issuer to utilise the exemption available to the Issuer under IAS 27 and the Companies Act 2006 to prepare group accounts).				

	<i>Statements of no significant or material adverse change</i> There has been no material adverse change in the prospects of the Issuer or the Group since 29th February, 2012. There has been no significant change in the financial or trading position of the Issuer or the Group since 31st August, 2012.	
B.13	Events impacting the Issuer's solvency	Not Applicable; there have been no recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency.
B.14	Dependence upon other group entities	The Issuer is a wholly owned subsidiary of TPF. TPF in turn is a wholly owned subsidiary of Tesco Group. A significant proportion of the Issuer's United Kingdom customer base are existing Tesco Group customers that utilise other retail services offered by Tesco. The Issuer is dependent on the existing store network of Tesco, the IT infrastructure maintained by the Tesco Group and the strength and reach of brands originating from the Tesco Group. The Issuer receives investment from Tesco which has funded planned expenditure on systems development and infrastructure and strengthened the Issuer's capital position.
B.15	Principal activities	The Issuer provides a wide range of retail financial service products, primarily in the United Kingdom, to personal customers. The products and services offered by the Issuer are advertised through and can be purchased by customers from the store network of Tesco, over the telephone and on the worldwide web via the website tescobank.com. As at the date of this Offering Circular, the Issuer generates approximately 78 per cent. of the sale of its retail financial service products from online sales to its customers. A significant proportion of the Issuer's United Kingdom customer base are existing Tesco Group customers that utilise other retail services offered by Tesco. Products offered to its customers include general insurance (such as car, home, travel, breakdown, pet insurance and a range of personal protection insurance (which comprises life, health, payment protection and dental insurance)), credit cards, personal loans, personal savings products, a network of automated teller machines and mortgages.
B.16	Controlling shareholders	The Issuer is a wholly owned subsidiary of TPF. TPF in turn is a wholly owned subsidiary of Tesco PLC.
B.17	Credit ratings	[Not Applicable; no credit ratings have been assigned to the Issuer or its debt securities at the request or with the cooperation of the Issuer in the rating process.] [The Notes [have been]/[are expected to be] rated • by •. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.]

Section C – Securities		
Element	Title	
C.1	Description of Notes/ISIN	The Notes described in this section are debt securities with a denomination of [less than]/[at least] €100,000 (or its equivalent in any other currency). The Notes may be Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes, RPI-Linked Notes, or a combination of the foregoing. The Notes are [£/€/U.S.\$/[]]• [• per cent./Floating Rate/Zero Coupon/RPI-Linked] Notes due •. International Securities Identification Number (ISIN): •
C.2	Currency	The currency of each Series of Notes issued will be agreed between the Issuer and the relevant Dealer at the time of issue. The currency of this Series of Notes is [Pounds Sterling (£)/Euro (€)/U.S. dollars (U.S.\$)/[] (•)].
C.5	Transferability	There are no restrictions on the free transferability of the Notes.

<p>C.8</p>	<p>Rights attached to the Notes and ranking</p>	<p>Status</p> <p>The Notes and any relative Coupons constitute direct, unconditional, unsubordinated and (subject to the provisions of the Negative Pledge) unsecured obligations of the Issuer and will rank pari passu among themselves and (save for certain debts preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.</p> <p>Taxation</p> <p>All payments in respect of Notes will be made without deduction for or on account of withholding taxes imposed within the United Kingdom unless such deduction is required by law. In the event that any such deduction is required, the Issuer will, save in certain limited circumstances, be required to pay additional amounts to cover the amounts so deducted.</p> <p>In addition, payments in respect of the Notes will be made subject to, <i>inter alia</i>, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the Code) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.</p> <p>Negative pledge</p> <p>The terms of the Notes contain a negative pledge provision which prohibits the Issuer from creating security interests (other than certain permitted security interests including relating to covered bonds) over its undertakings and assets to secure certain indebtedness evidenced by notes, bonds, debentures, or other securities which are quoted or traded on any stock exchange or in any securities market, subject to certain specified exceptions (such exceptions including (i) secured Sterling loan stock initially distributed primarily in the United Kingdom and (ii) limited recourse indebtedness).</p> <p>Events of default</p> <p>The terms of the Notes contain, amongst others, the following events of default:</p> <ul style="list-style-type: none"> (a) default in payment of any principal or interest due in respect of the Notes, continuing for a specified period of time; (b) events relating to the winding up, cessation of business, administration, insolvency and creditor arrangements of the Issuer and certain material subsidiaries of the Issuer; (c) (i) certain types of indebtedness (subject to an aggregate threshold of £25,000,000) of the Issuer or certain material subsidiaries of the Issuer being declared due and payable prior to the date on which the same would have become due and payable by reason of the occurrence of an event of default in relation to such indebtedness; or (ii) default in payment by the Issuer or certain material subsidiaries of the Issuer of certain types of indebtedness (subject to an aggregate threshold of £25,000,000) at the maturity thereof or at the expiry of any applicable grace period or any guarantee of any such indebtedness given by the Issuer or certain material subsidiaries of the Issuer, when due and called upon save in any such case where there is a bona fide dispute as to whether payment or repayment is due; and (d) non-performance or non-observance by the Issuer of any of its other obligations under the conditions of the Notes or the Trust Deed, in certain cases continuing for a specified period of time. <p>Meetings</p> <p>The terms of the Notes contain provisions for calling meetings of holders of such Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.</p> <p>Governing law</p> <p>English law.</p>
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C.9	Interest/ Redemption	<p>Interest</p> <p>Notes may or may not bear interest. Interest-bearing Notes will either bear interest payable at a fixed rate, a floating rate or at a rate calculated by reference to movements in the U.K. Retail Prices Index.</p> <p>[The Notes bear interest [from their date of issue] at the fixed rate of • per cent. per annum. The yield of the Notes is • per cent. Interest will be paid [semi-annually/annually] in arrear on • in each year.]</p> <p>[The Notes bear interest [from their date of issue] at floating rates calculated by reference to [] [plus/minus] a margin of • per cent. Interest will be paid [quarterly] in arrear on •, •, • and • in each year, subject to adjustment for non-business days.]</p> <p>[The Notes bear interest [from their date of issue] at a rate of • per cent. per annum (the Rate of Interest), which is subject to adjustment by reference to movements in the U.K. Retail Prices Index (RPI) (for all items) published by the Office of National Statistics (January 1987 = 100), or any other comparable index which may replace RPI for the purpose of calculating relevant amounts in respect of the Notes, between [] and the [month/[]] which is • months prior to the relevant date for payment. Interest will be paid [semi-annually] in arrear on • and • in each year[, subject to adjustment for non-business days] (each an Interest Payment Date). [In respect of [] the Notes are subject to [a Minimum Indexation Factor of •] [and] [a Maximum Indexation Factor of •].]</p> <p>[The Notes do not bear any interest.]</p> <p>Redemption</p> <p>The terms under which Notes may be redeemed (including the maturity date and the price at which they will be redeemed on the maturity date as well as any provisions relating to early redemption) will be agreed between the Issuer and the relevant Dealer at the time of issue of the relevant Notes.</p> <p>Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on • at • per cent. of their nominal amount [subject to adjustment by reference to movements in RPI, between [] and the [month/[]] which is • months prior to the relevant date for payment]. The Notes may be redeemed early for tax reasons [or for indexation reasons] [or []] at [], in each case adjusted by reference to movements in RPI during the period described above].</p> <p>Representative of holders</p> <p>Capita Trust Company Limited (the Trustee) will act as trustee for the holders of Notes. The Trustee may, without the consent of any holders and without regard to the interests of particular holders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of any holders that an event of default or potential event of default shall not be treated as such or (iii) the substitution of another company as principal debtor under the Notes in place of the Issuer.</p> <p>Please also refer to item C.8.</p>
C.10	Derivative component	<p>Notes may or may not be derivative securities.</p> <p>[Not Applicable; The Notes are not derivative securities.]</p> <p>[The Notes are derivative securities, reflecting the fact that [the amount of interest payable on each Interest Payment Date] [and/or] [the amount to be repaid upon redemption of the Notes] will be calculated by reference to movements in RPI between • (the Base Index Figure) and the RPI figure relating to the • prior to the relevant Interest Payment Date (the “reference period”). [A decrease in RPI over the reference period will reduce the amount of interest payable on the Notes. In a deflationary environment, the annual interest received may be lower than the rate of • per cent. per annum] [subject to •].]</p> <p>[However, a][A] decrease in RPI over the reference period [may][will not] reduce the amount to be repaid upon redemption of the Notes to less than [the nominal amount] of the Notes.]</p> <p>Please also refer to item C.9.</p>

C.11	Listing/ Distribution	<p><i>Listing</i></p> <p>Notes may be listed on the London Stock Exchange or may be issued on an unlisted basis.</p> <p>[The Notes will be listed on the London Stock Exchange [and admitted to trading through the London Stock Exchange's electronic order book for retail bonds (ORB)].][The Notes will not be listed on any stock exchange.]</p> <p><i>Distribution</i></p> <p>[The Notes may be offered to the public in [Ireland] [and] [the United Kingdom].][The Notes are being sold only to • [and •].]</p>
C.15	Any underlying which may affect the value of the Notes	<p>Payments of principal on RPI-Linked Redemption Notes and interest on RPI-Linked Interest Notes will be adjusted to take into account changes in RPI from the relevant Base Index Figure.</p> <p>[Not Applicable; the Notes are not RPI-Linked Notes]</p> <p>[In respect of the Notes, the Rate of Interest (• per cent. per annum) will, for the purposes of determining the amount of interest payable on any Interest Payment Date, be multiplied by the ratio which reflects the change in RPI between the Base Index Figure and the RPI figure relating to the • prior to the relevant Interest Payment Date.]</p> <p>[Subject to any early redemption of the Notes, the Notes will be redeemed on • at • per cent. of their aggregate nominal amount, provided that:</p> <p>(i) if the RPI figure relating to the • prior to the relevant [month in/date on] which such payment falls to be made is higher than the Base Index Figure, an additional amount reflecting such increase in RPI will also be paid [(subject to the maximum redemption amount of •)]; and</p> <p>(ii) if the RPI figure relating to the • prior to the relevant [month in/date on] which such payment falls to be made is lower than the Base Index Figure, the amount payable on redemption of the Notes will be reduced to reflect such decrease in RPI [(subject to the minimum redemption amount of •)].]</p>
C.16	Exercise date/ final reference date	<p>The relevant maturity date in respect of RPI-Linked Notes will be such date as may be agreed between the Issuer and the relevant Dealer at the time of issue of RPI-Linked Notes.</p> <p>[Not Applicable; the Notes are not RPI-Linked Notes.]</p> <p>The maturity date of the Notes will be [•].</p>
C.17	Settlement procedure of derivative securities	<p>[Not Applicable; the Notes are not RPI-Linked Notes.]</p> <p>[Euroclear Bank S.A./N.V. (Euroclear) and/or Clearstream Banking, société anonyme (Clearstream, Luxembourg) [and/or •].]</p> <p>[Noteholders will hold interests in the Notes through CREST through the issuance of dematerialised depository interests (CDIs), issued, held, settled and transferred through CREST, representing interests in the Notes underlying the CDIs. CDIs are independent securities constituted under English law and transferred through CREST and will be issued by CREST Depository Limited pursuant to the global deed poll dated 25th June, 2001 (as subsequently modified, supplemented and/or restated).</p> <p>Neither the Notes nor any rights attached thereto will be issued, held, transferred or settled within the CREST system other than through the issue, holding, transfer and settlement of CDIs. Holders of CDIs will not be entitled to deal directly in the Notes and, accordingly, all dealings in the Notes will be effected through CREST in relation to the holding of CDIs.]</p>
C.18	Return on derivative securities	<p>Payments of principal and/or interest on RPI-Linked Notes are subject to adjustment by reference to movements in RPI.</p> <p>[Not Applicable; the Notes are not RPI-Linked Notes.]</p> <p>[The amount of interest payable to Noteholders on each Interest Payment Date will be adjusted for changes in RPI between [] and [] prior to the relevant Interest Payment Date.]</p>

		<p>[Subject to any early redemption of the Notes, the Notes will be redeemed on • at • per cent. of their aggregate nominal amount, provided that:</p> <p>(i) if the RPI figure relating to the • prior to the relevant [month in/date on] which such payment falls to be made is higher than the Base Index Figure, an additional amount reflecting such increase in RPI will also be paid [(subject to the maximum redemption amount of •)]; and</p> <p>(ii) if the RPI figure relating to the • prior to the relevant [month in/date on] which such payment falls to be made is lower than the Base Index Figure, the amount payable on redemption of the Notes will be reduced to reflect such decrease in RPI [(subject to the minimum redemption amount)].]</p>
C.19	Exercise price/final reference price	[Not Applicable; the Notes are not RPI-Linked Notes.][The amounts payable in respect of the Notes will be calculated using the Base Index Figure and a second reference price that relates to RPI relating to the • prior to the relevant payment date in respect of the Notes.]
C.20	Underlying	<p>[Not Applicable; the Notes are not RPI-Linked Notes] [RPI is one of the most familiar general purpose domestic measures of inflation in the U.K. RPI has been used as a measure of inflation since 1947 and measures the average change from month to month in the prices of goods and services purchased by most households in the U.K. The spending pattern on which the RPI is based is revised each year, mainly using information from official expenditure and food surveys.</p> <p>RPI is compiled by the U.K. Office of National Statistics (ONS) using a large and representative selection of separate goods and services for which price movements are regularly measured in various areas throughout the UK. If prices rise compared to the previous month, the RPI goes up and if prices fall compared to the previous month, the RPI goes down. It takes two or three weeks for the ONS to compile the index, so each month's RPI figure is published during the following month, (e.g. the figure relating to July will be published in August). The RPI figures used in the calculation of [interest payments on the Notes] [and] [the redemption amount of the Notes] are numerical representations of where prices on a list of items bought by an average family stand at a point in time, in relation to their past values.</p> <p>More information on RPI, including past and current levels, can be found at the following website: www.statistics.gov.uk.]</p>

Section D – Risks

Element	Title	
D.2	Key risks regarding the Issuer	<ul style="list-style-type: none"> • Risks relating to business and economic risks including general and sector specific economic conditions in the markets in which it operates and the continued dislocation of financial markets. • The Issuer's financial performance may be materially and adversely affected by competition, including declining lending margins or competition for savings driving up funding costs which cannot be recovered from borrowers. • The failure of the Issuer to correctly apply its credit-risk assessment system to potential customers or counterparties, correctly design its credit-risk-assessment system, or to continually evaluate the appropriateness of its credit-risk-assessment system to take account of changing circumstances affecting the lending environment in which it operates and the changing nature of potential customers and counterparties could, in certain circumstances, lead to (i) loans being made by the Issuer to inappropriate customers or counterparties or (ii) loans being made at a rate or subject to conditions which are inappropriate to the level of affordability or the individual circumstances of customers or counterparties. A failure by customers or counterparties to meet payment obligations to the Issuer, could have a material adverse effect on the Issuer's business. • The Issuer outsources a significant number of services and processes to third party service providers and a key operational risk is that any failure of an outsourced service provider could have a material adverse effect on the Issuer's business, financial condition and results of operations. Any adverse impact on the Issuer's

		<p>own banking and insurance systems and infrastructure as a result of outsourcing to third party service providers could have a material adverse effect on the Issuer's business, financial condition and results of operations.</p> <ul style="list-style-type: none"> • Exposure to adverse interest rate movements in the context of the Issuer's banking activities could have a material adverse effect on the Issuer's business, financial condition and results of operation. • The Issuer's business is subject to risks concerning liquidity, which are inherent in banking operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Issuer's profitability and in extreme circumstances its ability to meet obligations on time. • In its insurance business the Issuer is exposed to risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations at the time of underwriting, and to the insurance cycle. Should a significant insurance risk, event or increase in volume of claims materialise, it could have a material adverse effect on the Issuer's business, financial condition and results of operations. • If the Issuer goes out of business or becomes insolvent, Noteholders may lose some or, in the worst case scenario, all of their investment in Notes issued under the Programme. • Compliance with any changes in regulation or with any regulatory intervention resulting from political or regulatory scrutiny may significantly increase the Issuer's costs, impede the efficiency of its internal business processes, limit its ability to pursue business opportunities, or diminish its reputation. Any of these consequences could have a material adverse effect on the Issuer's operating results, financial condition and prospects. • Exercise of powers under the Banking Act 2009 might have a material adverse effect on all or part of the Issuer's business. • Exercise of the powers under the Crisis Management Directive could have a material adverse effect on all or part of the Issuer's business or the business of its holding company, the position of the Noteholders and any credit rating attached to the Notes then outstanding, since the application of any such powers may affect the rights and effective remedies of the Noteholders and the market value of the Notes. • Implementation of Banking reform proposals could negatively affect the position of the Issuer, the Noteholders and any credit rating attached to the Notes then outstanding. • The Issuer is subject to levies imposed by the Financial Services Compensation Scheme. The total future cost of such levies is uncertain and may, if significant, have a material adverse effect on the Issuer's results of operations and financial condition. • The Issuer's entry into the secured lending market with the launch of mortgages will result in greater exposure to the impact of house price changes, potential pipeline risk as well as risk arising from new infrastructure and systems. Should any of these risks materialise it may have an adverse effect on the Issuer's business, financial condition and results of operations. • The entering into and administration of residential mortgages is subject to regulatory requirements, which are subject to change. At this stage it is not clear what impact this will have on the Issuer's business and operations. Failure by the Issuer to comply with applicable regulatory requirements may have an adverse effect on the Issuer's business and profitability. • Failure to protect the Issuer's reputation or damage to the reputation of the Tesco Group could have a material adverse effect on the Issuer's business, financial condition and results of operations. • Any significant failure in the Information Technology processes of its operations would impact its reputation and potentially its ability to carry on its business. • As a participating employer in the Tesco Pension Scheme (the Scheme), the Issuer shares responsibility for funding the Scheme with other participating employers. There can be no certainty as to the Issuer's liability for contributions to the Scheme. The Issuer's liability for contributions may adversely affect its financial position.
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		<ul style="list-style-type: none"> Other material risks that may affect the Issuer's ability to fulfil its obligations under the Notes issued under the Programme include market risk, tax risk, operational risk and the risk of failing to attract and retain key employees with the skills and expertise required to deliver the Issuer's strategy and the risk that employees and others acting on its behalf may not act in the Issuer's best interests.
D.3	Key risks regarding the Notes	There are also risks associated with the Notes including a range of risks relating to the structure of the Notes, market risks and risks relating to Notes generally including that [changes in prevailing interest rates and inflation could affect the value of the Notes;] [the Notes may be subject to early redemption, which may limit their market value;] [in the context of RPI-Linked Notes, principal paid on redemption may be less than the face value of the Note;] [there may be no or only a limited secondary market in the Notes;] [the Notes are not protected by the UK Financial Services Compensation Scheme;] [the holder of the Notes may not receive the full amount of payments due in respect of the Notes should the Issuer be required to hold or deduct amounts at source on account of tax from such payments in order to comply with applicable law;] [the Conditions of the Notes may be modified without the consent of the holder in certain circumstances;] [investors who purchase the Notes in denominations which are not an integral multiple of the Specified Denomination will be adversely affected if definitive Notes are subsequently required to be issued;] [the value of Notes may be affected by a change in law or regulation;] [investors who hold CDIs may experience different rights and returns than those who do not;] [the value of an investor's investment may be adversely affected by exchange rate movements where the Notes are not denominated in the investor's own currency;] [and] [any credit rating assigned to the Notes may not adequately reflect all risks associated with an investment in the Notes].
D.6	Risk warning	The Notes may be RPI-Linked Redemption Notes which do not specify a minimum redemption amount equal to at least 100 per cent. of the nominal amount of the Notes. In respect of such Notes, a decrease in RPI over the reference period will reduce the amount to be repaid upon redemption of the Notes to less than the face amount of the Notes. [Not Applicable; the Notes will be redeemed at [at least] 100 per cent. of their principal amount.] [A decrease in RPI over the reference period may reduce the amount of interest payable, or the amount to be repaid upon redemption of the Notes, to less than the specified rate of interest or the face amount of the Notes, as applicable.]

Section E – Offer		
Element	Title	
E.2b	Use of proceeds	The net proceeds from each issue of Notes may be applied by the Issuer for its general corporate purposes, which include making a profit, or may be applied for particular uses, as determined by the Issuer. [The net proceeds from the issue of the Notes will be applied by the Issuer [for its general corporate purposes, which include making a profit] [[and] []].]
E.3	Terms and conditions of the offer	<p>The terms and conditions of each offer of Notes will be determined by agreement between the Issuer and the relevant Dealer at the time of issue.</p> <p>[Not Applicable; the Notes are in denominations of at least €100,000 (or its equivalent in any other currency).]</p> <p>[An Investor intending to acquire or acquiring any Notes from an Offeror other than the Issuer will do so, and offers and sales of Notes to an Investor by such Offeror will be made, in accordance with any terms and other arrangements in place between such Offeror and such Investor including as to price, allocations and settlement arrangements.</p> <p>Offer Price: [The Issue Price][Not Applicable][]</p> <p>Conditions to which the offer is subject: [Not Applicable][]</p> <p>Offer Period: [The period from [] until []/[the Issue Date]]/[the date which falls • Business Days thereafter]]</p> <p>Description of the application process: [Not Applicable][]</p>

		<p>Details of the minimum and/or maximum amount of application: [Not Applicable][]</p> <p>Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants: [Not Applicable][]</p> <p>Details of the method and time limits for paying up and delivering the Notes: [Not Applicable][]</p> <p>Manner in and date on which results of the offer are to be made public: [Not Applicable][]</p> <p>Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: [Not Applicable][]</p> <p>Whether tranche(s) have been reserved for certain countries: [Not Applicable][]</p> <p>Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made: [Not Applicable][]</p> <p>Amount of any expenses and taxes specifically charged to the subscriber or purchaser: [Not Applicable][]</p> <p>Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place: [None][]</p> <p>[Categories of potential investors to which the Notes are offered: []]</p>
E.4	Interest of natural and legal persons involved in the issue/offer	<p>The relevant Dealers may be paid fees in relation to any issue of Notes under the Programme.</p> <p>[The [Dealers/Managers] will be paid aggregate commissions equal to • per cent. of the nominal amount of the Notes.] Any [Dealer/Manager] and its affiliates may also have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.</p>
E.7	Expenses charged to the investor by the Issuer or an offeror	<p>It is not anticipated that the Issuer will charge any expenses to investors in connection with any issue of Notes. Other Offerors (as defined above) may, however, charge expenses to investors. Such expenses (if any) will be determined on a case by case basis but would be expected to be in the range of between 1 per cent. and 7 per cent. of the nominal amount of the Notes to be purchased by the relevant investor.</p> <p>[No expenses are being charged to an investor by the Issuer, however, expenses may be charged by an Offeror (as defined above) in the range of between • per cent. and • per cent. of the nominal amount of the Notes to be purchased by the relevant investor.]</p>

Risk Factors

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

Investors are relying solely on the creditworthiness of the Issuer

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain debts preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer. Each investor in the Notes is relying on the creditworthiness of the Issuer, and no other person.

Business and economic risks

General

The Issuer's business is subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly the United Kingdom, in which the Issuer's earnings are predominantly generated. Over approximately the past five years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world, that began in August 2007 but substantially worsened in September 2008, triggered widespread problems at many large global and United Kingdom commercial, investment and insurance companies and other financial and related institutions. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the United Kingdom Government and other governments to inject liquidity into the financial system and to require (and participate in) recapitalisation of the banking sector to reduce the risk of failure of certain large institutions and provide confidence to the market.

Despite this intervention, the volatility and market disruption in the banking sector has continued. This market dislocation was also accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom. The widespread and severe deterioration in the United Kingdom and virtually all other economies throughout the world, including, but not limited to, consumer confidence, unemployment trends, the availability and cost of credit, the liquidity of the financial markets and market interest rates, could reduce the level of demand for, and supply of, the Issuer's products and services, lead to lower asset and other realisations and increased negative fair value adjustments and impairments of investments and other assets and materially and adversely impact its operating results, financial condition and prospects.

In Europe, the continued impact of the financial downturn on several countries, including Greece, Italy, the Republic of Ireland, Spain and Portugal, together with the risk of contagion to other more stable countries, has exacerbated the global economic crisis. In particular, the risk of default on the sovereign debt of those countries, including the potential that some countries could exit the euro-zone (either voluntarily or involuntarily) has raised concerns about the ongoing viability of the euro currency and the European Monetary Union. Uncertainty over the best way forward for the highly indebted euro-zone persists and poses a serious threat to the global economic recovery. The spread of political instability and contagion to other euro-zone countries has increased since the last quarter of 2011. Financial markets are expected to

remain dislocated and volatile, with the risk of contagion unlikely to dissipate in the near term. This continues to place strain on funding markets at a time when many financial institutions (in particular) have material ongoing funding needs. Continuing concerns about the fiscal position in euro-zone countries resulted in increased credit spreads in the areas affected, and fears of contagion affected the euro and widened spreads between central bank and interbank rates.

The performance of the Issuer may also be adversely affected by these economic conditions. For example, the financial problems currently experienced by certain euro-zone member states may lead to the issue of significant volumes of debt, which may in turn reduce demand for debt issued by financial institutions and corporate borrowers. This could adversely affect the Issuer's access to the debt capital markets and may increase its funding costs, having a negative impact on its earnings and financial condition.

The volatility and disruption of the capital and credit markets (including that arising by reason of the financial difficulties experienced by sovereign states described above) have affected and could continue to affect the availability and cost of credit for financial institutions, including the Issuer, and could continue to impact the credit quality of customers and counterparties. Such conditions, alone or in combination with regulatory changes or actions of other market participants, may have a material adverse effect on the Issuer's operating results, financial condition and prospects. In 2011 and early 2012, a number of UK and other European financial institutions and the sovereign debt of several European countries experienced downgrades by one or more of the major rating agencies in connection with macroeconomic conditions, prospects for growth, progression of structural reforms and austerity measures. Any downgrade of the UK sovereign credit rating or the credit rating of any other country in which the Issuer has significant direct and/or indirect exposures, or the perception that such a downgrade may occur, may (i) destabilise the markets and the UK economy, (ii) have a material adverse effect on the Issuer's operating results, financial conditions and prospects, and (iii) adversely affect the Issuer's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which it is difficult to predict. These risks are exacerbated by the euro-zone sovereign debt crisis.

Any further significant deterioration in the United Kingdom and other economies in which the Issuer operates could have a material adverse impact on the future results of operations of the Issuer. Moreover, economic growth may be modest and is likely to be insufficient to prevent unemployment rising further. The rate at which deterioration of the global and United Kingdom economies has occurred has proven very difficult to predict and this will apply to any further deterioration or any recovery.

The Issuer's financial performance may be materially and adversely affected by competition, including declining lending margins or competition for savings driving up funding costs which cannot be recovered from borrowers

The markets for United Kingdom retail financial services are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. Moreover, United Kingdom Government and/or European intervention in the banking sector may impact the competitive position of the Issuer relative to its international competitors which may be subject to different forms of government intervention, thus potentially putting the Issuer at a competitive disadvantage to local Issuers in such jurisdictions. Any combination of these factors could result in a reduction in profit. The Issuer's financial performance and its ability to capture additional market share depends significantly upon the competitive environment and management's response to it. For example, new entrants into the market may cause existing customers of the Issuer to seek access to financial services elsewhere. The Issuer's position in market "best buy" tables for retail financial services has a high correlation to the quality and number of customer applications for the Issuer's retail financial services products and so an increase in competition may impact upon the number of customer applications for the Issuer's retail financial services products and the subsequent number of applications accepted by the Issuer.

The Issuer's financial performance may be materially and adversely affected by competition, including declining lending margins or competition for savings driving up funding costs which cannot be recovered from borrowers. Conversely, the performance of the Issuer may be affected by competitors deliberately exiting the market at sensitive times to the Issuer such as at the time of new product launches or known system changes. A significant rise in the number of customer applications for the Issuer's retail financial services products at these times may stress the Issuer's ability to process such applications.

The failure of the Issuer to correctly apply its credit-risk assessment system to potential customers or counterparties, correctly design its credit-risk assessment system, or to continually evaluate the

appropriateness of its credit-risk assessment system to take account of changing circumstances affecting the lending environment in which it operates and the changing nature of potential customers and counterparties could, in certain circumstances, lead to (i) loans being made by the Issuer to inappropriate customers or counterparties or (ii) loans being made at a rate or subject to conditions which are inappropriate to the level of affordability or the individual circumstances of customers or counterparties. A failure by customers or counterparties to meet payment obligations to the Issuer, could have a material adverse effect on the Issuer's business

The Issuer's business, including its credit card, personal loans and mortgage business, is exposed to the risk that its customers and counterparties may fail to meet their payment obligations to the Issuer. The risk arises principally from the Issuer's lending activities as well as from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. Limits to the amount lent to customers and counterparties have been established and are based on their respective credit ratings. This is controlled within the Issuer's approved Risk Appetite statement. The level of limits imposed and proposed counterparties are reviewed and approved by the Board or a delegated authority approved by the Board i.e. the Risk Management Committee (**RMC**) or the Credit Risk Management Committee (**CRMC**). Retail lending is based on a range of credit criteria including credit scoring, policy rules and an affordability assessment.

Credit risk, arising from its unsecured and secured lending, is managed using a variety of industry standard practices. Internal reporting and oversight of non-consumer risk assets is principally differentiated by credit ratings. Internal ratings are used to assess the credit quality of borrowers. Customers are assigned credit ratings, based on various credit grading models that reflect the probability of default.

Industry benchmarking enables the Issuer to track their performance against the industry average. It also allows for an assessment of market trends with regard to lending capacity and appetite for credit.

The failure of the Issuer to correctly apply its credit-risk assessment system to potential customers or counterparties, correctly design its credit-risk assessment system, or to continually evaluate the appropriateness of its credit-risk assessment system to take account of changing circumstances affecting the lending environment in which it operates and the changing nature of potential customers and counterparties, could in certain circumstances, lead to (i) loans being made by the Issuer to inappropriate customers or counterparties or (ii) loans being made at a rate or subject to conditions which are inappropriate to the level of affordability or the individual circumstances of customers or counterparties. A failure by customers or counterparties to meet payment obligations to the Issuer, could have a material adverse effect on the Issuer's business.

The Issuer is reliant on the profile of customers attracted to the Tesco Group retail brand. Changes in marketing strategy from Tesco stores could alter the currently demonstrated customer behaviour and subsequent levels of credit risk. The Issuer aims to target customer segments within Tesco Group who align to the Issuer's risk appetite.

External stress factors such as market increases to standard variable interest rates, rises in unemployment and higher costs of living (i.e. food, fuel, utilities) could also impair a customer's ability to meet its payment obligations. Operational failures internal and external to the Issuer can impact the ability of the Issuer to collect on outstanding debt owed to it.

The Issuer outsources a significant number of services and processes to third party service providers and a key operational risk is that any failure of an outsourced service provider could have a material adverse effect on the Issuer's business, financial condition and results of operations. Any adverse impact on the Issuer's own banking and insurance systems and infrastructure as a result of outsourcing to third party service providers could have a material adverse effect on the Issuer's business, financial condition and results of operations

The Issuer outsources a significant number of services and processes to third party service providers and a key operational risk is that any failure of an outsourced service provider could have a material adverse effect on the Issuer's business, financial condition and results of operations. The Issuer has controls in place to oversee the integrity and efficiency of third party service providers.

The Issuer will also be subject to the risk of unexpected losses arising from operational failure of its own business and insurance systems and infrastructure, whether as a result of human error, systems failures, inadequate process controls or as a result of external events. Any adverse impact on the Issuer's own banking and insurance systems and infrastructure could have a material adverse effect on the Issuer's business, financial condition and results of operations.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the Financial Services Authority. The Issuer has embedded Disaster Recovery and Business Continuity Plans in place to address operational failure which may arise in relation to its business and insurance systems and infrastructure.

Exposure to adverse interest rate movements in the context of the Issuer's banking activities could have a material adverse effect on the Issuer's business, financial condition and results of operation

Interest rate risk arises where assets and liabilities in the Issuer's banking activities have different characteristics. The Issuer maintains a low appetite for exposure of its banking activities to interest rate risk and seeks to minimise the sensitivity of net interest income to changes in interest rates. Potential exposures to interest rate movements in the medium to long term are measured and controlled through a combination of duration and net interest income sensitivity based limits. Appropriate interest rate derivatives are used to manage interest rate risk in accordance with policies approved by the Asset and Liability Committee (ALCo).

The Issuer's entry into the secured lending market with the launch of mortgages will result in greater exposure to the impact of house price changes, potential pipeline risk as well as risk arising from new infrastructure and systems. Should any of these risks materialise it may have an adverse effect on the Issuer's business, financial condition and results of operations

The Issuer's entry into the secured lending market with the launch of mortgages will result in greater exposure to the impact of house price changes, potential pipeline risk as well as risk arising from new infrastructure and systems. There are risks inherent in any new product launch, these could include failure on new infrastructure and systems or potential risk arising from lack of historical product trend information. Should the Issuer fail to manage its mortgage pipeline appropriately, there is a risk that it is unable to adequately fund its mortgage product and in the case of fixed rate products there is a risk that it could result in exposure to movements in interest rates.

Should any of these risks materialise it may have an adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer's business is subject to risks concerning liquidity, which are inherent in banking operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Issuer's profitability and in extreme circumstances its ability to meet obligations on time

The Issuer's business is subject to risks concerning liquidity, which are inherent in banking operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Issuer's profitability and in extreme circumstances its ability to meet obligations on time.

The Issuer maintains appropriate levels of liquidity and meets the requirements set by the Financial Services Authority (**FSA**) from time to time. In the United Kingdom, the FSA requires the Issuer to adopt appropriate policies in order to be self-sufficient for liquidity purposes for both business as usual and stress scenarios. To meet regulatory requirements a high quality liquid and marketable asset portfolio is maintained. Cash flow commitments and marketable asset holdings are measured and managed on a daily basis. The Issuer believes it has sufficient liquidity to meet foreseeable outflow requirements as they fall due. However, under extreme and unforeseen circumstances a prolonged and severe restriction on the Issuer's access to liquidity could affect the Issuer's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend, and in such extreme circumstances the Issuer may not be in a position to continue to operate without additional funding support, which it may be unable to access, which could have a material impact on the Issuer's liquidity, including its ability to meet its regulatory minimum liquidity requirements which in turn could have a material adverse effect on the Issuer's business, financial condition and results of operations.

In its insurance business the Issuer is exposed to risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations at the time of underwriting. Should a significant insurance risk, event or increase in volume of claims materialise, it could have a material adverse effect on the Issuer's business, financial condition and results of operations

The Issuer is exposed to insurance risk through its associate company which is owned jointly with Ageas.

Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations at the time of underwriting. In addition, market conditions may not allow the purchase of re-insurance considered necessary on terms considered acceptable. Actual claims may exceed the claims provisions that have been made on the basis of past experience.

The frequency and severity of claims and the sources of uncertainty for the key classes that the Issuer is exposed to are as follows:

- *Motor insurance:* claims experience is quite variable, due to a wide range of factors, but the principal ones are age, sex and driving experience, type and nature of vehicle, use of vehicle and area. There are many sources of uncertainty that will affect the Issuer's experience under motor insurance including operational risk, reserving risk, premium rates not matching claims inflation rates, the weather, the social, economic and legislative environment and reinsurance failure risk.
- *Motor claims – Third Party Bodily Injury:* There are currently significant market wide inflationary pressures on personal motor bodily injury claims arising from both increased frequency of injury claims and higher than expected inflation in settled costs. According to industry reports, this is, in part, being driven by the increasing influence of claims management companies causing both a higher number of claims and a higher proportion of claims involving multiple claimants and/or third party legal costs.
- *Property insurance:* The major causes of claims for property insurance are theft, flood, escape of water, fire, storm, subsidence and various types of accidental damage. The major source of uncertainty is the volatility of weather. A large weather related event could generate the largest adverse variance against expected levels of losses for the Issuer's insurance business.
- *Payment protection insurance:* There are currently significant market wide inflationary pressures on claims for compensation made by claimants who claim they were wrongly sold payment protection insurance (**PPI**) sold in conjunction with retail financial service products. The calculation of the provision for customer redress involves estimating a number of variables including the volume of cases in which compensation is paid, the amount of such compensation and is based on the level of complaints received to date. Uncertainty inherent in estimating the volume of cases in which compensation is payable and/or the amount payable, which includes those cases where the Issuer may be required to contact customers as a result of historic sales practices, may have a significant impact on the ultimate cost of compensation. In the six months to 31st August, 2012, the Group has experienced an increase in the volume of complaints related to historic PPI sales which are in the main driven by the activities of third party claims management companies. This increase in volume has been experienced across the industry and has resulted in a number of institutions making adjustments to the value of provisions held. In addition, the Group has undertaken a second pilot exercise which has provided additional data upon which to base provision assumptions. As a result of both of these factors, the Group decided to further increase the value of the existing provision by £30 million towards the end of the first half of the year. The total provision balance as at 31st August, 2012 was £78,154,000.

Should a significant insurance risk, event or increase in volume of claims materialise, it could have a material adverse effect on the Issuer's business, financial condition and results of operations. The investment portfolio of the Issuer's associate company is subject to credit and market risk. In addition, through its distribution arrangements with underwriters, the Issuer is exposed to the insurance cycle. Periods of increased competition and/or falling rates may have a material and adverse effect on the Issuer's business, financial condition and results of operations.

If the Issuer failed to attract and retain people with the right capabilities at all levels of its operations, it could have a material adverse effect on the Issuer's business, financial condition and results of operations

It is critical to the Issuer's success to attract, retain, develop and motivate people with the right capabilities at all levels of operations. The Issuer considers its people policies regularly and is committed to investing in training, development and incentives for its people. The Issuer's 'Talent Planning' process helps individuals achieve their full potential. The Issuer also carries out succession planning to ensure that the needs of the business going forward are considered and provided for. If the Issuer failed to attract and retain people with the right capabilities at all levels of its operations, it could have a material adverse effect on the Issuer's business, financial condition and results of operations.

If the Issuer goes out of business or becomes insolvent, Noteholders may lose some or, in the worst case scenario, all of their investment in Notes issued under the Programme

If the Issuer goes out of business or becomes insolvent, Noteholders may lose some or, in the worst case scenario, all of their investment in Notes issued under the Programme. In the event that the Issuer becomes insolvent, Noteholders will recover their investment in priority to shareholders of the Issuer. However, a Noteholder could still lose the money that it has invested.

Legal and regulatory risks

General

The Issuer is subject to significant legislative and regulatory oversight. In particular, it is subject to supervision by the FSA, which has substantial powers of intervention; the Issuer is required to satisfy certain capital adequacy requirements and liquidity ratios. If the Issuer is unable or fails to satisfy these requirements or ratios in the future, it could lose its licence and, consequently, its ability to transact business. Furthermore as described below, under the Banking Act 2009, the Treasury has wide powers to make certain orders, including with retrospective effect, in respect of an authorised deposit-taking institution such as the Issuer. The orders may include transfers of property, rights and liabilities and other orders that could adversely affect the Issuer's assets and liabilities. The United Kingdom Government, the FSA and other regulators in the United Kingdom or the EU may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect the Issuer. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Issuer and could materially adversely impact the Issuer's business.

Areas where changes could have an adverse impact include, but are not limited to:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy, or changes in regulatory regimes that may change the structure of the markets in which the Issuer operates and the products offered or may increase the costs of doing business in those markets;
- changes to prudential regulatory rules relating to capital adequacy and liquidity frameworks;
- external bodies applying or interpreting standards or laws differently to those applied by the Issuer historically;
- changes in competition and pricing environments;
- further developments in requirements relating to financial reporting, corporate governance, conduct of business and employee compensation;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Issuer's products and services.

In the United Kingdom and elsewhere, there is increased political and regulatory scrutiny of the banking industry and, in particular, retail banking. The United Kingdom Government, the FSA and other regulators in the United Kingdom or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect the Issuer.

Increased regulatory intervention may lead to requests from regulators to carry out wide ranging reviews of past sales and/or sales practices. In the United Kingdom, the FSA and the Office of Fair Trading (**OFT**) have recently carried out, or are currently conducting, several inquiries, including in relation to PPI. Regulatory reviews and investigations may result in enforcement actions and public sanction, which could expose the Issuer to an increased risk of litigation in addition to financial penalties and/or the deployment of such regulatory tools as the relevant regulator deems appropriate in the circumstances.

Following publication of the Turner Review ("A Regulatory Response to the Global Banking Crisis") in March, 2009, the FSA has implemented, or is in the process of implementing, a number of changes to regulatory requirements applicable to regulated firms, including a new framework for controlled functions and approved persons, governance of regulated firms and remuneration. The FSA may require firms to hold additional regulatory capital and meet more stringent liquidity requirements, which continues to be a focus of the FSA, with speeches from senior regulatory individuals outlining firms' inadequate capital and liquidity standards and governance frameworks – see further below in relation to additional capital and liquidity

requirements under Basel III and the Capital Requirements Directive. The FSA has moved away from its previous “light touch” principles based regime to a more intensive and interventionist, outcomes-based regime and continues to follow its strategy of “credible deterrence”, which is evidenced by a significant increase in the number of enforcement actions brought against firms and increases in the quantum of fines levied. These developments and proposals could have an adverse impact on the shape of the Issuer’s business model. The cost of compliance with new regulatory requirements may well lead to reduced profitability, as well as to a lower return on equity.

In January 2012 the UK Government introduced the Financial Services Bill (the **Bill**) into parliament, which will implement the reforms to the current regulatory system in the United Kingdom. Under the new system the Bank of England will be responsible for macro-prudential oversight of the financial system, the Prudential Regulation Authority (**PRA**) for prudential supervision of banks and other systemically important firms (including the Issuer) and the Financial Conduct Authority (**FCA**), will be responsible for supervising all firms’ compliance with conduct of business requirements. In April 2012 the FSA formally began supervising firms under the “twin peaks” model in advance of the formal transition of regulatory and supervisory powers from the FSA to the FCA and the PRA. It is expected that the new regulatory structure will come into force in early 2013. Prior to this time the responsibility for regulating and supervising the activities of the Issuer has been with the FSA. The Bill introduces a number of new powers, including product intervention powers and the power to render unenforceable contracts made in contravention of such powers. The Bill will formalise cooperation between the FCA and the Financial Ombudsman Service, particularly where issues identified potentially have wider implications. The UK Government has included provisions in the Bill enabling the transfer of responsibility for the regulation of consumer credit from the OFT to the FCA. Until such changes take effect it is not certain what effect such proposals would have on the Issuer and its business and operations.

In 2011, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority were established as new EU Supervisory Authorities. These bodies are likely to have greater influence on regulatory approaches across the EU, which could lead to changes in how the Issuer is regulated and supervised on a day-to-day basis.

The Basel Committee on Banking Supervision has put forward proposals for a reform package which makes significant changes to the regulatory capital requirements and liquidity standards applicable to banks, including enhancing the quality and quantity of capital, strengthening capital requirements for counterparty credit risk, introducing a leverage ratio, introducing new capital buffers and implementing an enhanced liquidity regime. In the EU, these proposals will be implemented through changes to the Capital Requirements Directive – known as “CRD IV”, which changes are expected to be finalised during the course of 2012. It is further proposed that in order for certain instruments to qualify as eligible regulatory capital, they are required to include contractual “bail-in” provisions whereby the principal amount of the instruments can be written down on a permanent or temporary basis or converted into equity in certain circumstances. It is at this stage uncertain whether all of the proposals in CRD IV will be adopted and if so, in what form and as a result what impact these proposals will have on the Issuer, its business and profitability. It is expected that the new requirements will be implemented on a phased basis from 2013 – 2018.

Amendments to a number of other EU directives are being considered as well as new proposals which may have an impact on the Issuer’s current or proposed future business proposals, including amendments to the Markets in Financial Instruments Directive, the Market Abuse Directive as well as a proposal for the regulation of mortgage credit and packaged financial products. The UK Government announced in October 2011 the establishment of a simple products steering group to consider the concept of simple financial products, the process of agreeing upon final product specification and design, branding and marketing of simple products and the approval procedures for such products. The steering group published an interim report in July 2012 in which it made a number of recommendations including that certain “simple” financial products be issued on the same terms and conditions and for providers to compete on price, service and value associated with their own brand. It is proposed that three types of simple financial products be launched initially: an easy access savings accounts, 30 day notice savings accounts and life cover. At this stage, it is unclear what final form such recommendations will take and whether they will be implemented and therefore the impact, if any, that such recommendations will have on the Issuer’s business.

Compliance with any changes in regulation or with any regulatory intervention resulting from political or regulatory scrutiny may significantly increase the Issuer’s costs, impede the efficiency of its internal business processes, limit its ability to pursue business opportunities, or diminish its reputation. Any of these

consequences could have a material adverse effect on the Issuer's operating results, financial condition and prospects.

Exercise of powers under the Banking Act 2009 might have a material adverse effect on all or part of the Issuer's business

Under the Banking Act 2009 (the **2009 Act**), actions may be taken by the United Kingdom Treasury (the **Treasury**) and the Bank of England pursuant to the special resolution regime, in order to address a situation where all or part of the business of a United Kingdom institution with permission to accept deposits under the FSMA (a **UK Bank**) (such as the Issuer) has encountered, or is likely to encounter, financial difficulties. The 2009 Act gives the Treasury certain wide powers to support the implementation of the stabilisation measures contemplated by the 2009 Act.

These powers, which apply regardless of any contractual restrictions, include (a) power to issue share transfer instruments or orders pursuant to which there may be transferred to a commercial purchaser or a nominee of or company wholly owned by the Treasury, all or some of the securities (as defined in Section 14 of the 2009 Act) issued by a UK Bank; the share transfer order can extend to a wide range of "securities" including shares and bonds issued by a UK Bank or its holding company and warrants for such shares and bonds and (b) the power to transfer all or some of the property, rights and liabilities of a UK Bank to a commercial purchaser or Bank of England entity. In certain circumstances encumbrances and trusts can be over-reached or varied. Power also exists to over-ride any default provisions in transactions otherwise affected by these powers. Compensation may be payable in the context of share transfer instruments and orders and property transfer instruments. The 2009 Act also includes provisions relating to two new insolvency procedures which may be commenced by specified United Kingdom authorities (bank insolvency and bank administration).

The 2009 Act also vests power in the Bank of England to over-ride, vary or impose contractual obligations between a UK Bank or its holding company and its former group undertakings (as defined in the 2009 Act), for reasonable consideration, in order to enable any transferee or successor bank of a UK Bank, or its holding company, to operate effectively. There is also power for the Treasury to amend the law (save for a provision made by or under the 2009 Act) by order for the purpose of enabling the special resolution regime powers to be used effectively, potentially with retrospective effect.

Exercise of powers under the 2009 Act might have a material adverse effect on all or part of the Issuer's business.

Exercise of the powers under the Crisis Management Directive could have a material adverse effect on all or part of the Issuer's business or the business of its holding company, the position of the Noteholders and any credit rating attached to the Notes then outstanding, since the application of any such powers may affect the rights and effective remedies of the Noteholders and the market value of the Notes

On 6th June, 2012, the European Commission proposed a new Directive on a comprehensive framework for the recovery and resolution of credit institutions (which would include the Issuer) and investment firms (the **Crisis Management Directive**). The proposals under the Crisis Management Directive include the requirement for an institution to draw up a recovery plan, which sets out (amongst other things), the measures the institution will take to restore itself to financial viability in certain circumstances. Furthermore the institution will be required to prepare a detailed resolution pack which will need to be provided to regulators in order to enable them to draw up a resolution plan for the institution (both at a group and individual entity level). The recovery and resolution plans will need to be updated on an annual basis. The Crisis Management Directive includes proposals giving regulators wide powers to intervene when an institution is not meeting, or is unlikely to meet, prudential requirements, including by appointing a special manager to take over management of the institution as well as a number of resolution powers which can be used by regulators to resolve the failing institution. The proposed powers are similar to the powers granted to the UK authorities under the 2009 Act as set out above, including the power to nationalise bank holding companies. However, they go beyond such powers notably by giving the authorities the power to write down the debt of a failing bank (or to convert such debt into equity) to strengthen its financial position and allow it to continue as a going concern subject to appropriate restructuring. It is currently unclear whether measures ultimately adopted in this area will apply retrospectively to any debt currently in issue, such as the Notes. It is possible that under the Crisis Management Directive or any other future similar proposals, any new resolution powers given to the Bank of England or another relevant authority could

therefore be used in such a way as to result in the debt instruments of the Issuer absorbing losses or otherwise affecting the rights of the Noteholders in the course of a resolution of the Issuer.

It is at this stage uncertain whether the Crisis Management Directive will be adopted and if so, when and in what form. Exercise of the powers under the Crisis Management Directive could have a material adverse effect on all or part of the Issuer's business or the business of its holding company, the position of the Noteholders and any credit rating attached to the Notes then outstanding, since the application of any such powers may affect the rights and effective remedies of the Noteholders and the market value of the Notes.

Implementation of Banking reform proposals could negatively affect the position of the Issuer, the Noteholders and any credit rating attached to the Notes then outstanding

On 14th June, 2012, the United Kingdom government published a white paper on banking reform closely based on the recommendations of the Independent Commission on Banking. The proposals set out in the white paper will require UK banking groups that include retail banks to make major structural changes to separate out their retail banking business from investment banking business and related activities. The proposals envisage the establishment of a retail banking "ring-fence" and increasing banks' capacity to absorb losses by requiring additional capital to be held and by introducing a statutory "bail-in" tool. The application of the "bail-in" tool will give the authorities the power to write-down or convert liabilities (such as those represented by the Notes) when the tool is used. The UK Government is seeking to improve competition in the banking sector and has said that it will continue to hold the banking industry to account to implement a new current account redirection service to enhance the process for individuals and small businesses to switch their bank account to a new provider. The UK Government has indicated that it will introduce all necessary legislation to implement the proposals by May 2015 and banks will be required to comply with the measures by 2019.

The white paper is subject to consultation and it is uncertain at this stage whether all of the proposals outlined in it will be adopted and in what form and as a result it is unclear what the impact of these proposals on the Issuer and its business will be. However, implementation of the proposals could negatively affect the position of the Issuer, the Noteholders and any credit rating attached to the Notes then outstanding.

The Issuer is subject to levies imposed by the Financial Services Compensation Scheme (the FSCS). The total future cost of such levies remains uncertain and may, if significant, have a material adverse effect on the Issuer's results of operations and financial condition

In the United Kingdom, FSCS was established under the FSMA and is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including the Issuer. The Issuer continues to provide for its share of the management expenses levy and the estimated interest cost on the FSCS borrowings. As at 31st August, 2012 the Issuer had accrued £3 million in respect of its share of the expenses of the FSCS. Going forward, further provisions in respect of these costs are likely to be necessary until the borrowings are repaid. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain although it may be significant and the associated costs to the Issuer may have a material adverse effect on its results of operations and financial condition.

Potential changes to the FSCS arrangements with the potential to require the Issuer to incur additional costs or expose the Issuer to risks may arise from ongoing discussions at the national and European Union levels around the future design of deposit protection schemes, including but not limited to potentially increasing the level of protection which is accorded to deposits and/or moving to pre-funding of compensation schemes. In June 2012, the FSA formally launched a consultation on key elements of the funding model of the FSCS.

The entering into and administration of residential mortgages is subject to regulatory requirements, which are subject to change. At this stage it is not clear what impact this will have on the Issuer's business and operations. Failure by the Issuer to comply with applicable regulatory requirements may have an adverse effect on the Issuer's business and profitability

The Issuer launched a residential mortgage offering on 6th August, 2012 and expects to launch a current account in the near future. The entering into and administration of residential mortgages is subject to

regulation by the FSA and, should the Issuer enter into second charge mortgages, by the OFT pursuant to the Consumer Credit Act 1974 (as amended). The Issuer is required to comply with additional regulatory requirements, including capital requirements, in connection with such business. Mortgage regulation has been, and continues to be, subject to increased regulatory scrutiny, including in respect of arrears and repossessions and mortgage lenders are required to comply with a number of legal and regulatory rules and requirements prior to enforcing a mortgage. The FSA has undertaken a comprehensive review of the mortgage market pursuant to its Mortgage Market Review, and has published a number of new rules and proposals, some of which have been implemented whereas others remain to be finalised. These include requirements in respect of responsible lending and distribution of mortgage products and disclosure to borrowers as well as new rules for approved persons carrying out mortgage lending activities. At a European level, a proposal for a directive on mortgage credit is currently being considered and requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. At this stage it is not clear what impact such requirements and developments will have on the Issuer's business and operations.

There is a risk that if the Issuer does not comply with applicable regulatory requirements, credit which has been extended to a borrower may be unenforceable or the borrower may be entitled to claim damages against the Issuer for breach of a regulatory rule or seek to exercise set-off (or exercise analogous rights in Scotland) the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken, which may have an adverse effect on the Issuer's business and profitability.

Failure to manage risk associated with changes in taxation rates or laws could impact the Issuer materially and adversely and could have a material negative impact on the Issuer's performance

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in increased charges, financial loss including penalties, and reputational damage. Failure to manage these risks adequately could impact the Issuer materially and adversely and could have a material negative impact on the Issuer's performance.

Failure to protect the Issuer's reputation or damage to the reputation of the Tesco Group could have a material adverse effect on the Issuer's business, financial condition and results of operations

Failure to protect the Issuer's reputation, or damage to the reputation of the Tesco Group, could lead to a loss of trust and confidence in the Issuer. This could result in a decline in the customer base, notably withdrawal of savings, and could have a material adverse effect on the Issuer's business, financial condition and results of operations.

Exposure to internal fraudulent behaviour by the Issuer's employees or external customer fraud could have an adverse effect on the Issuer's business, financial condition and results of operations

As the Issuer's business grows in size, complexity and geographical spread, the risk of occurrence of internal fraudulent behaviour by its employees increases. Whilst the potential for fraud and other dishonest activity always exists, the Issuer takes extensive steps to ensure the correct calibre of staff are recruited and their performance and behaviours are monitored through a robust Performance Management Framework. In addition, a robust risk framework is embedded throughout the business to ensure that risks and controls are identified, evaluated and risks mitigated using a combination of preventative and detective measures, such as established Policies and Procedures, segregation of duties and access control over computer systems.

The Issuer is also exposed to external customer fraud; this exposure is managed through the robust application of sophisticated controls at all stages of a customer relationship, from acquisition through to account closure. Robust fraud strategies and tools are maintained to ensure emerging fraud threats are identified, controls assessed and losses minimised, through the use of industry data, account profiling and fraud investigations.

The performance of the risk framework against agreed thresholds and standards is reported to the Issuer's Risk Management Committee and Board and instances of non-adherence are subject to action plans for

remediation. The Issuer's Internal Audit Department undertakes detailed investigations into all areas of the business and highlights its findings to the Audit Committee of the Board of Directors.

Exposure to internal fraudulent behaviour by the Issuer's employees or external customer fraud could have an adverse effect on the Issuer's business, financial condition and results of operations.

Any significant failure in the Information Technology (IT) processes of its operations or the world wide web would impact its reputation and potentially its ability to carry on its business

Efficient IT systems are integral to the successful operation of the Issuer's business. A range of systems are used for the origination of product sales, servicing and settlement of accounts. Additionally, given the nature of its operations, the Issuer is reliant upon availability of the world wide web. Any significant failure in the IT processes of its operations or the world wide web would impact its reputation and potentially its ability to carry on its business. The Issuer recognises the essential role that IT plays across its operations. The Issuer has controls in place to maintain the integrity and efficiency of its IT infrastructure.

A major incident or terrorist event incapacitating the Issuer's management or systems could impact on the Issuer's ability to carry on its business

A major incident or terrorist event incapacitating the Issuer's management or systems could impact on the Issuer's ability to carry on its business. In addition to contingency plans, the Issuer has security systems and processes that are designed to identify emerging risks.

*As a participating employer in the Tesco Pension Scheme (the **Scheme**), the Issuer shares responsibility for funding the Scheme with other participating employers. There can be no certainty as to the Issuer's liability for contributions to the Scheme. The Issuer's liability for contributions may adversely affect its financial position*

The Issuer is a participating employer in the Scheme, which is a defined benefit pension arrangement sponsored by companies in the Tesco Group. The Tesco Group regards such pension arrangements as an important part of its employees' overall benefits package especially in the United Kingdom. The Tesco Group sees them as a strong contributor to its ability to attract and retain good people, the Tesco Group's greatest asset.

The Tesco Group has considered its pension risks and has taken action by increasing contributions, and by reducing risk in its investment strategy. The Tesco Group has established an in house investment capability, Tesco Pension Investment Limited, which has been approved by the FSA.

As a participating employer in the Scheme, the Issuer shares responsibility for funding the Scheme with the other participating employers. If the Issuer withdrew from the Scheme or the Scheme were wound up, it may be required by section 75 of the Pensions Act 1995 to make a payment to the Scheme in respect of any funding shortfall at that time.

The Pensions Regulator could also, in certain circumstances, if he considered it reasonable, require the Issuer to provide financial support if the other employers were unable to meet their obligations to the Scheme.

There can therefore be no certainty as to the Issuer's liability for contributions to the Scheme. The Issuer's liability for contributions may adversely affect its financial position.

Other risks

The Issuer's financial statements are based in part on assumptions and estimates which, if wrong, could cause losses in the future.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Issuer's results and financial position, based upon materiality and significant judgements and estimates, include impairment of financial assets, valuation of financial instruments, provisions, pensions, goodwill, insurance and taxation.

If the judgement, estimates and assumptions used by the Issuer in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a material impact on the Issuer's results of operations and a corresponding impact on its funding requirements and capital ratios.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

General

If an investor chooses to sell its Notes issued under the Programme in the open market at any time prior to the maturity of the Notes, the price the investor will receive from a purchaser may be less than its original investment, and may be less than the amount due to be repaid at the maturity of the Notes if an investor were to hold onto the Notes until that time. Factors that will influence the price received by investors who choose to sell their Notes in the open market may include, but are not limited to, market appetite, inflation, the period of time remaining to maturity of the Notes prevailing, interest rates and the financial position of the Issuer.

Fixed Rate Notes bear interest at a fixed rate, which may affect the secondary market value and/or the real value of the Notes over time due to fluctuations in market interest rates and the effects of inflation

Fixed Rate Notes bear interest at a fixed rate. Investors should note that (i) if interest rates start to rise then the income to be paid by the Notes might become less attractive and the price the investors get if they sell such Notes could fall. However, the market price of the Notes has no effect on the interest amounts due on the Notes or what investors will be due to be repaid on the Maturity Date if the Notes are held by the investors until they expire; and (ii) inflation will reduce the real value of the Notes over time which may affect what investors can buy with their investments in the future and which may make the fixed interest rate on the Notes less attractive in the future.

If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. There is a risk that the Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, there is a risk that the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, there is a risk that the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, there is a risk that the fixed rate may be lower than then prevailing market rates.

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The amount of interest and/or the amount to be repaid upon redemption of Notes may be subject to adjustment by reference to RPI, which may reduce the interest amount payable in respect of the relevant interest period and/or reduce the amount to be repaid upon redemption to less than the face value of such Notes

The Issuer may issue Notes on terms that the amount of interest payable on each interest payment date and/or the amount to be repaid upon redemption of the Notes will be calculated by reference to movements in the U.K. Retail Prices Index (**RPI**) during a reference period (**RPI-Linked Notes**). RPI may go down as well as up.

Where Notes in respect of which the amount of interest payable is subject to adjustment by reference to movements in RPI are issued, a decrease in RPI over the reference period will reduce the amount of interest payable in respect of such Notes. In a deflationary environment, the annual interest received may be lower than the rate of interest specified in the applicable Final Terms.

Where the amount payable upon redemption of the Notes is subject to adjustment by reference to movements in RPI, a decrease in RPI over the reference period may reduce the amount to be repaid upon redemption of the Notes to less than the nominal amount of the Notes, unless the applicable Final Terms specifies a minimum redemption amount which is equal to or higher than the nominal amount of the Notes.

The historical experience of RPI should not be viewed as an indication of future performance of RPI during the term of any RPI-Linked Note.

Risks related to Notes generally

The Notes are not protected by the Financial Services Compensation Scheme

Unlike a bank deposit, the Notes are not protected by the FSCS. As a result, the FSCS will not pay compensation to an investor in the Notes upon the failure of the Issuer.

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority, and accordingly Noteholders may find themselves becoming bound by any such majority decision.

Investors should also note that the Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the conditions of the Notes or any of the provisions of the Trust Deed or (ii) determine that any condition, event or act which, but for such determination, would constitute an Event of Default, shall not be treated as such or (iii) agree to the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 17 of the Terms and Conditions of the Notes.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.

Withholding under the EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State of the European Union (each a **Member State**) is required to provide to the tax authorities of any other Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of, or collected by such person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland).

The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive. However, if a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, investors should note that neither the Issuer nor any Paying Agent (as defined in the Terms and Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

U.S. Foreign Account Tax Compliance Withholding

The “Foreign Account Tax Compliance Act” provisions of the U.S. “Hiring Incentives to Restore Employment Act” (commonly referred to as **FATCA**) generally will impose new information reporting, withholding and other requirements on certain non-U.S. financial institutions. Non-U.S. financial institutions that do not comply with these requirements generally will be subject to a 30 per cent. withholding tax on certain payments of U.S.-source income, gross proceeds from the sale of certain U.S. assets and, after 31st December, 2016, certain other payments attributable to such U.S. source income or assets (**Passthru Payments**). For purposes of FATCA, the term “financial institution” includes, among others, banks taking deposits as part of their banking business. Due to the nature of its activities, the Issuer expects to be treated as a non-U.S. financial institution under FATCA.

Under FATCA, non-U.S. financial institutions generally will be required to enter into agreements (**FFI Agreements**) with the U.S. Internal Revenue Service (the **IRS**) to (i) identify financial accounts held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other “financial institutions” that are not themselves participating in, or otherwise exempt from, the FATCA reporting and withholding regime, (ii) obtain information regarding each financial account that is held by U.S. persons or entities with substantial U.S. ownership (in which case the information must be obtained with respect to the entity’s “substantial U.S. owners”), (iii) provide annually to the IRS the name, address, taxpayer identification number and certain other information with respect to such U.S. persons and substantial U.S. owners, to the proper tax authorities. Under an FFI Agreement, a non-U.S. financial institution will also agree to withhold on Passthru Payments to (i) persons that do not provide required information about themselves or (ii) other non-U.S. financial institutions that have not entered into an FFI Agreement, unless such financial institutions are otherwise exempt from or in deemed compliance with FATCA.

Non-U.S. financial institutions subject to tax in certain jurisdictions whose governments enter into intergovernmental agreements with the U.S. government implementing FATCA may not be subject to the withholding tax or required to enter into an FFI Agreement with the IRS if they comply with information reporting requirements under local law and the relevant jurisdiction’s tax authority shares that information with the IRS under an information sharing agreement. The United Kingdom and the United States recently have entered into such an intergovernmental agreement (the **US-UK FATCA IGA**), but the provisions of the agreement have not yet been incorporated into United Kingdom law. It is not yet certain whether non-U.S. financial institutions not subject to FATCA withholding on payments they receive under the terms of an intergovernmental agreement will still be required to withhold on Passthru Payments they make to other non-U.S. financial institutions.

Compliance with the due diligence and information reporting obligations imposed by an FFI Agreement with the IRS or local law enacted pursuant to an intergovernmental agreement may impose additional costs on the Issuer in the future and unexpected withholding tax on payments received by the Issuer could adversely impact the Issuer and holders of its Notes.

If the Issuer enters into an FFI Agreement holders of Notes that (i) do not provide information required by the Issuer to comply with its obligations under the FFI Agreement (or under an applicable intergovernmental agreement), (ii) fail to enter into their own FFI Agreements (or otherwise comply with FATCA), in the case of holders that are financial institutions or (iii) receive payments on the Notes through financial institutions that do not enter into FFI Agreements or otherwise comply with FATCA, could be subject to withholding on Passthru Payments after 2016. Certain holders of Notes could also be subject to withholding on Passthru Payments if the US and UK tax authorities ultimately adopt an approach to Passthru Payments under the US-UK FATCA IGA that requires the Issuer (or financial institutions through which payments on the notes are made) to withhold on payments to such holders. Passthru Payments on Notes issued by the Issuer before 1st January, 2013 will generally not be subject to withholding under FATCA unless the Notes do not have a fixed maturity, are significantly modified after 31st December, 2012 or are treated as equity securities for U.S. federal income tax purposes.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on the Notes, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

This description of the FATCA rules is based on proposed regulations, preliminary guidance and the US-UK FATCA IGA. Further guidance and developments are anticipated prior to the effective date for the rules on Passthru Payments, which may significantly modify these rules as they apply to the Issuer and to investors.

Investors who purchase Notes in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Terms and Conditions of the Notes are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of any Notes affected by it.

No obligations arising out of or in connection with Notes issued under the Programme are supported by or have been assumed by Tesco or any other member of Tesco Group

All obligations arising out of or in connection with Notes issued under the Programme shall be the sole responsibility of the Issuer. No obligations arising out of or in connection with Notes issued under the Programme are supported by or have been assumed by Tesco or any other member of Tesco Group.

Risks relating to holding interests in the Notes through CREST Depository Interests

Interests in certain Notes may be held through CREST Depository Interests, and holders of such interests in the Notes will be subject to additional provisions and, as a result, the rights of, and

returns received by, such holders may differ from those of holders of Notes which are not represented by CREST Depository Interests

Terms used in this risk factor and not otherwise defined shall have the meanings given to such terms in the section entitled "*Clearing and Settlement – Crest Depository Interests*" in this Offering Circular.

CREST Depository Interests are separate legal obligations distinct from the Notes and CDI Holders will be subject to additional provisions other than the conditions of the Notes.

CDI Holders will hold or have an interest in a separate legal instrument and not be the legal owners of the Notes. The rights of CDI Holders to the Notes are represented by the relevant entitlements against the CREST Depository which (through the CREST Nominee) holds interests in the Notes. Accordingly, rights under the Notes cannot be enforced by CDI Holders except indirectly through the intermediary depositaries and custodians. The enforcement of rights under the Notes will be subject to the local law of the relevant intermediaries. This could result in an elimination or reduction in the payments that otherwise would have been made in respect of the Notes in the event of any insolvency or liquidation of any of the relevant intermediaries, in particular where the Notes held in clearing systems are not held in special purpose accounts and are fungible with other securities held in the same accounts on behalf of other customers of the relevant intermediaries.

The rights of the CDI Holders will be governed by the arrangements between CREST, Euroclear, Clearstream, Luxembourg and the relevant Issuer, including the CREST Deed Poll. Potential investors should note that the provisions of the CREST Deed Poll, the CREST Manual and the CREST Rules contain indemnities, warranties, representations and undertakings to be given by CDI Holders and limitations on the liability of the CREST Depository. CDI Holders are bound by such provisions and may incur liabilities resulting from a breach of any such indemnities, warranties, representations and undertakings in excess of the amounts originally invested by them. As a result, the rights of, and returns received by, CDI Holders may differ from those of holders of Notes which are not represented by CDIs.

In addition, CDI Holders may be required to pay fees, charges, costs and expenses to the CREST Depository in connection with the use of the CREST International Settlement Links Service. These will include the fees and expenses charged by the CREST Depository in respect of the provision of services by it under the CREST Deed Poll and any taxes, duties, charges, costs or expenses which may be or become payable in connection with the holding of the Notes through the CREST International Settlement Links Service.

Potential investors should note that none of the Issuer, the relevant Dealer, the Trustee and the Paying Agents will have any responsibility for the performance by any intermediaries through which interests in the Notes and/or CREST Depository Interests may be held, or their respective direct or indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

For further information on the issue and holding of CDIs see the section entitled "*Clearing and Settlement – Crest Depository Interests*" in this Offering Circular.

Risks related to the market generally

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. There is no guarantee of what the market price for selling or buying the Notes will be at any time. If prevailing market conditions reduce market interest in the Notes, the availability of a market price may be impaired. Moreover, notwithstanding in the case of Notes issued under the programme to be traded on the London Stock Exchange's electric order book for retail bonds (**ORB**) the presence of at least one market maker for the Notes, if trading actively levels are low, this may severely and adversely impact the price that an investor would receive if it wishes to sell its Notes.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

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

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

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates
Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Issuer or any Notes may not reflect the risks associated with an investment in those Notes

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to ratings will be disclosed in the Final Terms.

The yield associated with Fixed Rate Notes will differ according to the price at which the Notes are purchased

The indication of yield stated within the Final Terms of the Notes applies only to investments made at (as opposed to above or below) the issue price of the Notes. If an investor invests in Notes issued under the Programme at a price other than the issue price of the Notes, the yield on that particular investor's investment in the Notes will be different from the indication of yield on the Notes as set out in the Final Terms of the Notes.

Documents Incorporated by Reference

The following documents which have previously been published or are published simultaneously with this Offering Circular and have been approved by the Financial Services Authority or filed with it shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the auditors' report and the audited consolidated and non-consolidated financial statements of the Issuer for the 12 months ended 29th February, 2012 (which appear on pages 13 to 17, 19, 21 and 23 to 105 of the Directors' Report and financial statements for the year ended 29th February, 2012 of the Issuer);
- (b) the auditors' report and the audited non-consolidated financial statements of the Issuer for the 12 months ended 28th February, 2011 (which appear on pages 14 to 88 of the Directors' Report and financial statements for the year ended 28th February, 2011);
- (c) the unaudited consolidated financial statements of the Issuer for the six months ended 31st August, 2012;
- (d) the Terms and Conditions of the Notes contained in the previous Offering Circular dated 5th August, 2010 (on pages 51 to 68 (inclusive)) prepared by the Issuer in connection with the Programme; and
- (e) the Terms and Conditions of the Notes contained in the previous Offering Circular dated 16th August, 2011 (on pages 52 to 69 (inclusive)) prepared by the Issuer in connection with the Programme,

save that any statement contained herein, or in a document which is deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being.

Any documents themselves incorporated by reference in the document incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Offering Circular.

Supplements and New Offering Circulars

In the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes arising or being noted between the approval of this Offering Circular by the UK Listing Authority and the commencement of trading of such Notes on any EEA State Stock Exchange or the final closing of the offer of such Notes to the public in any EEA State, as the case may be, the Issuer will prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with such Notes and any subsequent issue of Notes.

Form of the Notes

Each Tranche of Notes will initially be represented by a temporary global Note without interest coupons or talons, or a permanent global Note without interest coupons or talons, in each case as specified in the relevant Final Terms. If the global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, the temporary global Note or, as the case may be, the permanent global Note will be delivered on the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and if the global Notes are not intended to be issued in NGN form, the temporary global Note or, as the case may be, the permanent global Note will be delivered on the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg and/or any other agreed clearing system.

Where the global Notes issued in respect of any Tranche of Notes are in NGN form, Euroclear and Clearstream, Luxembourg will be notified by or on behalf of the Issuer whether such global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made (against presentation of the temporary global Note if the temporary global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Clearstream, Luxembourg and/or Euroclear and Clearstream, Luxembourg and/or Euroclear, as applicable, has given a like certification (based on the certifications it has received) to the Agent (as defined on page 60). Any reference in this section "Form of the Notes" to Clearstream, Luxembourg and/or Euroclear shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Agent and the Trustee.

On and after the date (the **Exchange Date**) which is 40 days after the date on which any temporary global Note is issued, interests in such temporary global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a permanent global Note without interest coupons or talons or for definitive Notes with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. If any further Notes to be consolidated and form a single Series with any series of outstanding Notes are issued prior to the exchange of interests in the temporary global Note for interests in the permanent global Note representing such outstanding Notes, then the Exchange Date may be extended, without the consent of the holders, to a date which is not earlier than 40 days after the date of issue of such further Notes provided that the Exchange Date would not thereby fall on or after the first interest payment date for such outstanding Notes. The holder of a temporary global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless upon due certification exchange of the temporary global Note is improperly withheld or refused. Pursuant to the Agency Agreement (as defined on page 60) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned a common code and ISIN by Clearstream, Luxembourg and Euroclear which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least 40 days (as notified by the Agent to the relevant Dealer or, in the case of a syndicated issue, the lead manager) after the completion of the distribution of the Notes of such Tranche.

Payments of principal and interest (if any) on a permanent global Note will be made through Clearstream, Luxembourg and/or Euroclear (against presentation or surrender (as the case may be) of such permanent global Note if the permanent global Note is not intended to be issued in NGN form) without any requirement for certification. The applicable Final Terms will specify that either (i) a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, interest coupons and talons attached upon not less than 60 days' written notice from Clearstream,

Luxembourg and/or Euroclear (acting on the instructions of any holder of an interest in such permanent global Note) to the Agent as described therein or (ii) a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, interest coupons and talons attached upon the occurrence of an Exchange Event. **Exchange Event** means (i) an Event of Default has occurred and is continuing, (ii) the Issuer has been notified by the Agent that either Clearstream, Luxembourg or Euroclear has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 which would not be required were the Notes represented by such permanent global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Clearstream, Luxembourg and/or Euroclear (acting on the instructions of any holder of an interest in such permanent global Note) or the Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Agent.

Global Notes and definitive Notes will be constituted by, or pursuant to, the Trust Deed (as defined on page 60) and issued in accordance with the provisions of the Agency Agreement.

The following legend will appear on all global Notes, definitive Notes, interest coupons and talons relating to such Notes:

“Any United States person (as defined in the Internal Revenue Code of the United States of America) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to in the legend provide that United States holders will not, with certain exceptions, be permitted to deduct any loss and will not be eligible for favourable capital gains treatment with respect to any gain realized on a sale, exchange or redemption of any Note, interest coupon or talon.

Notwithstanding anything to the contrary contained in the Offering Circular, Notes issued under the Programme may be represented on issue by a permanent global Note which will be deposited on the issue date thereof with a common safekeeper or common depository for Clearstream, Luxembourg and Euroclear and/or any other agreed clearing system and which will be exchangeable, as specified in the applicable Final Terms, for Notes in definitive form.

CREST Depository Interests

If so specified in the applicable Final Terms, investors may also hold interests in the Notes through CREST through the issuance of CREST Depository Interests. See the section entitled “*Clearing and Settlement – Crest Depository Interests*” in this Offering Circular for more information regarding holding CREST Depository Interests.

Applicable Final Terms

NOTES WITH A DENOMINATION OF LESS THAN €100,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY)

[Date]

Tesco Personal Finance PLC

Issue of [] []
under the £2,000,000,000 Euro Note Programme

Part A — Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes set forth in the Offering Circular dated 31st October, 2012 which[, as modified by a supplement to it dated [],] constitutes a base prospectus for the purposes of the Prospectus Directive (the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. A summary of the Notes (which comprises the summary in the Offering Circular as amended to reflect the provisions of these Final Terms) is annexed to these Final Terms. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the **Conditions**) set forth in the Offering Circular dated [] which are incorporated by reference in the Offering Circular dated 31st October, 2012. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular dated 31st October, 2012 [as modified by the supplement to it dated [],] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Offering Circular**), including the Conditions incorporated by reference in the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. A summary of the Notes (which comprises the summary in the Offering Circular as amended to reflect the provisions of these Final Terms) is annexed to these Final Terms. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.]

The expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

1. Issuer: Tesco Personal Finance PLC
2. [(i)] Series Number: []
[(ii)] Tranche Number: []
[(iii)] Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 23 below, which is expected to occur on or about []]/[Not Applicable]]
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
(i) Tranche: []
(ii) Series: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from []]

6. (i) Specified Denominations: []
(ii) Calculation Amount: []
7. (i) Issue Date: []
(ii) Interest Commencement Date: [[]/Issue Date/Not Applicable]
8. Maturity Date: [[]]/[The Interest Payment Date falling in []]
9. Interest Basis: [[] per cent. Fixed Rate]
[[[] month [LIBOR/EURIBOR]] +/- [] per cent. Floating Rate]
[Zero Coupon]
[RPI-Linked Interest]
(further particulars specified in paragraph [14]/[15]/[16]/[17] below)
10. Redemption: [Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount]
[RPI-Linked Redemption]
11. Change of Interest Basis: [Not Applicable][For the period from (and including) the Interest Commencement Date, up to (but excluding) [] paragraph [14/15] applies and for the period from (and including) [], up to (and including) the Maturity Date, paragraph [14/15] applies]
12. Put/Call Options: [Save as provided in Condition 7(c), not applicable]
[Investor Put (see paragraph 20 below)]
[Issuer Call (see paragraph 19 below)]
[Condition 7(c) also applies]
13. Date [Board] approval for issuance of Notes obtained: [[] [and [], respectively]] [Not Applicable]

Provisions Relating to Interest (if any) Payable

14. Fixed Rate Note Provisions [Applicable/Not Applicable]
- (i) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [] in each year up to and including the Maturity Date
- (iii) Fixed Coupon Amount(s): [] per Calculation Amount
- (iv) Broken Amount(s): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []] [Not Applicable]
- (v) Fixed Day Count Fraction: [Actual/Actual (ICMA)/30/360]
- (vi) Determination Date(s): [[] in each year][Not Applicable]
15. Floating Rate Note Provisions [Applicable/Not Applicable]
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]

- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (vi) Screen Rate Determination:
- Reference Rate and Relevant Financial Centre: Reference Rate: [] month [LIBOR/EURIBOR].
Relevant Financial Centre: [London/Brussels]
 - Interest Determination Date(s): []
 - Relevant Screen Page: []
- (vii) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Margin(s): [+/-] [] per cent. per annum
- (ix) Minimum Rate of Interest: [] per cent. per annum
- (x) Maximum Rate of Interest: [] per cent. per annum
- (xi) Floating Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual][Actual/365 (Fixed)][Actual/360][30/360][360/360][Bond Basis][30E/360][Eurobond basis][30E/360 (ISDA)]
16. Zero Coupon Note Provisions [Applicable/Not Applicable]
- (i) Accrual Yield: [] per cent. per annum
 - (ii) Reference Price: []
 - (iii) Day Count Fraction in relation to Early Redemption Amounts: [30/360][Actual/360][Actual/365]
17. RPI-Linked Note Provisions [Applicable – Condition 5 applies/Not Applicable]
- (i) Rate of Interest: [] per cent. per annum
 - (ii) Name and address of Calculation Agent: []
 - (iii) Party responsible for calculating the Interest Amounts and Redemption Amount(s) (if not the Agent): [][Not Applicable]
 - (iv) Specified Period(s)/Specified Interest Payment Date(s): []
 - (v) Business Day Convention: [Not Applicable/Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
 - (vi) Additional Business Centre(s): [][Not Applicable]
 - (vii) Day Count Fraction: [Actual/Actual (ICMA)][30/360 (as set out in Condition 4(a))][Actual/Actual (ISDA)][Actual/Actual][Actual/365 (Fixed)]

- [Actual/360]
 [30/360 (as set out in Condition 4(b))][360/360][Bond Basis]
 [30E/360][Eurobond basis]
 [30E/360 (ISDA)]
- (viii) Determination Dates: [[] in each year][Not Applicable]
- (ix) Base Index Figure: []
- (x) Index Figure applicable to: [particular month: paragraph (i) of the definition of “Index Figure applicable” applies] [first calendar day of any month: paragraph (ii) of the definition of “Index Figure applicable” applies] [[] in any month: paragraph (iii) of the definition of “Index Figure applicable” applies]
- (xi) Reference Gilt: [[] per cent. Index-Linked Treasury Stock due [] / []
- (xii) Limited Indexation: [Applicable][Not Applicable]
- Minimum Indexation Factor: [] [Not Applicable]
 - Maximum Indexation Factor: [] [Not Applicable]
 - Limited Indexation Month(s) or period for calculation of Limited Indexation Factor: []

Provisions Relating to Redemption

18. [(i)] Notice periods for Condition 7(b): Minimum period: [] days
 Maximum period: [] days
- [(ii)] Notice periods for Condition 7(c): [Minimum period [] days
 Maximum period: [] days][Not Applicable]
19. Issuer Call [Applicable/[Save as provided in Condition 7(c),] Not Applicable]
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount: [] per Calculation Amount
- (a) Minimum Optional Redemption Amount: [[] per Calculation Amount][Not Applicable]
- (b) Maximum Optional Redemption Amount: [[] per Calculation Amount][Not Applicable]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Higher Redemption Amount: []
- (iv) Notice periods: Minimum period: [] days
 Maximum period: [] days
20. Investor Put [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s): [] per Calculation Amount
- (a) Minimum Optional Redemption Amount: [[] per Calculation Amount][Not Applicable]

- (b) Maximum Optional Redemption Amount: [] per Calculation Amount][Not Applicable]
- (iii) Notice periods: Minimum period: [] days
Maximum period: [] days
21. Final Redemption Amount: [] per Calculation Amount
- (a) Minimum Final Redemption Amount: [] per Calculation Amount][Not Applicable]
- (b) Maximum Final Redemption Amount: [] per Calculation Amount][Not Applicable]
22. Early Redemption Amount(s) payable on redemption for taxation reasons, indexation reasons or on event of default: [] per Calculation Amount]/[In accordance with Condition 7(f)]
- (a) Minimum Early Redemption Amount: [] per Calculation Amount][Not Applicable]
- (b) Maximum Early Redemption Amount: [] per Calculation Amount][Not Applicable]

General Provisions Applicable to the Notes

23. (a) Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.]
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].]
[CREST Depository Interests (**CDIs**) representing the Notes may also be issued in accordance with the usual procedures of Euroclear UK & Ireland Limited (**CREST**)]
- (b) New Global Note: [Yes] [No]
24. Additional Financial Centre(s): [Not Applicable] []

Third Party Information

[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Tesco Personal Finance PLC:

By: _____
Duly authorised

Part B — Other Information

1. LISTING AND ADMISSION TO TRADING

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market [and through the London Stock Exchange's electronic order book for retail bonds (ORB)] and listing on the Official List of the UK Listing Authority with effect from [].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market [and through the London Stock Exchange's electronic order book for retail bonds (ORB)] and listing on the Official List of the UK Listing Authority with effect from [].] [Not Applicable.]

[[] will be appointed as registered market maker[s] through ORB (<http://www.londonstockexchange.com/exchange/prices-and-markets/retail-bonds/retail-bonds-search.html>) when the Notes are issued. Market-making will be supported by [] on [the bondscape platform (www.bondscape.net)]/[].]

2. RATINGS

Ratings:

[Not Applicable]/[The Notes to be issued [[have been]/[are expected to be]] rated [] by [].]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i)] Reasons for the offer []

[(ii)] Estimated net proceeds: []

[(iii)] Estimated total expenses: [].

5. [YIELD]

Indication of yield: []

[Calculated as [] on the Issue Date.]

6. [HISTORIC INTEREST RATES]

[Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].]

7. [POST-ISSUANCE INFORMATION]

The Issuer [intends to provide post-issuance information. The following post-issuance information will be reported: [] and can be obtained from [].] [does not intend to provide post-issuance information.]

8. OPERATIONAL INFORMATION

(i) ISIN Code: []

(ii) Common Code: []

- (iii) Name(s) and address(es) of any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable]/[]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []

9. DISTRIBUTION

- (i) Name(s) and address(es) of Manager(s)/relevant Dealer and underwriting commitment(s): [Not Applicable]/[]
- (ii) Date of underwriting agreement: []
- (iii) Total commission and concession: [] per cent. of the Aggregate Nominal Amount
- (iv) U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]]
- (v) Public Offer: [Not Applicable] [An offer of the Notes may be made by the Managers and the following financial intermediaries/placers: [] [and/or if the Issuer appoints additional financial intermediaries/placers after the date of these Final Terms and publishes details of them on its website, each financial intermediary/placer whose details are so published.]/[An offer of the Notes may be made by the Managers and any financial intermediary which is authorised to make such offers under Directive 2004/39/EC (the Markets in Financial Instruments Directive) which states on its website that it is relying on this Offering Circular to offer the relevant Tranche of Notes during the Offer Period (as defined below)] (together with the Managers, the **Financial Intermediaries**) other than pursuant to Article 3(2) of the Prospectus Directive in [] (the **Public Offer Jurisdictions**) during the period from [[] until [[] /the Issue Date]/[the date which falls [] Business Days thereafter] (the **Offer Period**). See further paragraph 10 below. [The above consent is subject to the following other conditions: []].]

10. TERMS AND CONDITIONS OF THE OFFER

- Offer Price: [Issue Price/Not Applicable/[]]
- Conditions to which the offer is subject: [Not Applicable/[]]
- Offer Period: See paragraph 9 above
- Description of the application process: [Not Applicable/[]]
- Details of the minimum and/or maximum amount of application: [Not Applicable/[]]

Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:	[Not Applicable/[]]
Details of the method and time limits for paying up and delivering the Notes:	[Not Applicable/[]]
Manner in and date on which results of the offer are to be made public:	[Not Applicable/[]]
Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	[Not Applicable/[]]
Whether tranche(s) have been reserved for certain countries:	[Not Applicable/[]]
Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:	[Not Applicable/[]]
Amount of any expenses and taxes specifically charged to the subscriber or purchaser:	[Not Applicable/[]]
Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place:	The Financial Intermediaries identified in or in the manner specified in paragraph 9 above
[Categories of potential investors to which the Notes are offered:	[Offers or solicitations may be made by the Managers and/or [] in [] during the Offer Period set out above to any person []. No offer or solicitation in respect of the Notes shall be made by the Managers [and/or the Financial Intermediaries] except pursuant to an exemption from the obligation under the Prospectus Directive as implemented in such countries to publish a prospectus (a) in any other Member State of the European Economic Area or (b) after the Offer Period set out above has ended.]]

SUMMARY OF THE NOTES

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NOTES WITH A DENOMINATION OF €100,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) OR MORE

[Date]

Tesco Personal Finance PLC

Issue of [] []
under the £2,000,000,000 Euro Note Programme

Part A — Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes set forth in the Offering Circular dated 31st October, 2012 which[, as modified by a supplement to the Offering Circular dated [],] constitutes a base prospectus for the purposes of the Prospectus Directive (the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the **Conditions**) set forth in the Offering Circular dated [] which are incorporated by reference in the Offering Circular dated 31st October, 2012. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular dated 31st October, 2012 [as modified by the supplement to the Offering Circular dated [],] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Offering Circular**), including the Conditions incorporated by reference in the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.]

The expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

1. Issuer: Tesco Personal Finance PLC
2. [(i)] Series Number: []
[(ii)] Tranche Number: []
[(iii)] Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with [] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 23 below, which is expected to occur on or about []]/[Not Applicable]]
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
 - (i) Tranche: []
 - (ii) Series: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from []] (if applicable)
6. (i) Specified Denominations: []
(ii) Calculation Amount: []
7. (i) Issue Date: []
(ii) Interest Commencement Date: [[]/Issue Date/Not Applicable]
8. Maturity Date: [[]]/[The Interest Payment Date falling in []]

9. Interest Basis: [[] per cent. Fixed Rate]
[[] month [LIBOR/EURIBOR]] +/- [] per cent. Floating Rate]
[Zero Coupon]
[RPI-Linked Interest]
(further particulars specified in paragraph [14]/[15]/[16]/[17] below)
10. Redemption: [Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount]
[RPI-Linked Redemption]
11. Change of Interest Basis: [Not Applicable][For the period from (and including) the Interest Commencement Date, up to (but excluding) [] paragraph [14/15] applies and for the period from (and including) [], up to (and including) the Maturity Date, paragraph [14/15] applies]
12. Put/Call Options: [Save as provided in Condition 7(c), not applicable]
[Investor Put (see paragraph 20 below)]
[Issuer Call (see paragraph 19 below)]
[Condition 7(c) also applies]
13. Date [Board] approval for issuance of Notes obtained: [[] [and [], respectively]] [Not Applicable]

Provisions Relating to Interest (if any) Payable

14. Fixed Rate Note Provisions [Applicable/Not Applicable]
- (i) Rate[s] of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [] in each year up to and including the Maturity Date
- (iii) Fixed Coupon Amount(s): [] per Calculation Amount
- (iv) Broken Amount(s): [[] per Calculation Amount payable on the Interest Payment Date falling [in/on] []] [Not Applicable]
- (v) Fixed Day Count Fraction: [Actual/Actual (ICMA)/30/360]
- (vi) Determination Date(s): [[] in each year][Not Applicable]
15. Floating Rate Note Provisions [Applicable/Not Applicable]
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (vi) Screen Rate Determination:

— Reference Rate and Relevant Financial Centre:	Reference Rate: [] month [LIBOR/EURIBOR]. Relevant Financial Centre: [London/Brussels]
— Interest Determination Date(s):	[]
— Relevant Screen Page:	[]
(vii) ISDA Determination:	
— Floating Rate Option:	[]
— Designated Maturity:	[]
— Reset Date:	[]
(viii) Margin(s):	[+/-] [] per cent. per annum
(ix) Minimum Rate of Interest:	[] per cent. per annum
(x) Maximum Rate of Interest:	[] per cent. per annum
(xi) Floating Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/360] [30/360][360/360][Bond Basis] [30E/360][Eurobond basis] [30E/360 (ISDA)]
16. Zero Coupon Note Provisions	[Applicable/Not Applicable]
(i) Accrual Yield:	[] per cent. per annum
(ii) Reference Price:	[]
(iii) Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]
17. RPI-Linked Note Provisions	[Applicable – Condition 5 applies/Not Applicable]
(i) Rate of Interest:	[] per cent. per annum
(ii) Name and address of Calculation Agent:	[]
(iii) Party responsible for calculating the Interest Amounts and Redemption Amount(s) (if not the Agent):	[] [Not Applicable]
(iv) Specified Period(s)/Specified Interest Payment Date(s):	[]
(v) Business Day Convention:	[Not Applicable/Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(vi) Additional Business Centre(s):	[] [Not Applicable]
(vii) Day Count Fraction:	[Actual/Actual (ICMA)] [30/360 (as set out in Condition 4(a))] [Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/360] [30/360 (as set out in Condition 4(b))][360/360][Bond Basis] [30E/360][Eurobond basis] [30E/360 (ISDA)]
(viii) Determination Dates:	[[] in each year][Not Applicable]

- (ix) Base Index Figure: []
- (x) Index Figure applicable to: [particular month: paragraph (i) of the definition of “Index Figure applicable” applies] [first calendar day of any month: paragraph (ii) of the definition of “Index Figure applicable” applies] [[] in any month: paragraph (iii) of the definition of “Index Figure applicable” applies]
- (xi) Reference Gilt: [[] per cent. Index-Linked Treasury Stock due []]
[]
- (xii) Limited Indexation: [Applicable][Not Applicable]
- Minimum Indexation Factor: [] [Not Applicable]
 - Maximum Indexation Factor: [] [Not Applicable]
 - Limited Indexation Month(s) or period for calculation of Limited Indexation Factor: []

Provisions Relating to Redemption

18. [(i)] Notice periods for Condition 7(b): Minimum period: [] days
Maximum period: [] days
- [(ii)] Notice periods for Condition 7(c): [Minimum period: [] days
Maximum period: [] days][Not Applicable]
19. Issuer Call [Applicable/[Save as provided in Condition 7(c),] Not Applicable]
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount: [] per Calculation Amount
- (a) Minimum Optional Redemption Amount: [[] per Calculation Amount][Not Applicable]
- (b) Maximum Optional Redemption Amount: [[] per Calculation Amount][Not Applicable]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Higher Redemption Amount: []
- (iv) Notice periods: Minimum period: [] days
Maximum period: [] days
20. Investor Put [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s): [] per Calculation Amount
- (a) Minimum Optional Redemption Amount: [[] per Calculation Amount][Not Applicable]
- (b) Maximum Optional Redemption Amount: [[] per Calculation Amount][Not Applicable]
- (iii) Notice periods: Minimum period: [] days
Maximum period: [] days

21. Final Redemption Amount: [] per Calculation Amount
- (a) Minimum Final Redemption Amount: [[] per Calculation Amount][Not Applicable]
- (b) Maximum Final Redemption Amount: [[] per Calculation Amount][Not Applicable]
22. Early Redemption Amount(s) payable on redemption for taxation reasons, indexation reasons or on event of default: [[] per Calculation Amount]/[In accordance with Condition 7(f)]
- (a) Minimum Early Redemption Amount: [[] per Calculation Amount][Not Applicable]
- (b) Maximum Early Redemption Amount: [[] per Calculation Amount][Not Applicable]

General Provisions Applicable to the Notes

23. (a) Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.]
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].]
- (b) New Global Note: [Yes] [No]
24. Additional Financial Centre(s): [Not Applicable/[]]

Third Party Information

[[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Tesco Personal Finance PLC:

By: _____
Duly authorised

Part B — Other Information

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [].]
- [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

- Ratings: [Not Applicable]/[The Notes to be issued [[have been]/[are expected to be]] rated [] by [].]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i)] Reasons for the offer: []
- [(ii)] Estimated net proceeds: []
- [(iii)] Estimated total expenses: [].

5. [YIELD]

- Indication of yield: []
- [Calculated as [] on the Issue Date.]

6. [HISTORIC INTEREST RATES]

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].

7. [POST-ISSUANCE INFORMATION]

The Issuer [intends to provide post-issuance information. The following post-issuance information will be reported: [] and can be obtained from [].] [does not intend to provide post-issuance information].

8. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []
- (iii) Name(s) and address(es) of any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable]/[]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []

9. DISTRIBUTION

- (i) Name(s) of Manager(s)/relevant Dealer: [Not Applicable/[]]
- (ii) Date of underwriting agreement: []
- (iii) U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]]

SUMMARY OF THE NOTES

[

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Terms and Conditions of the Notes

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each global Note and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global Note and definitive Note. Reference should be made to "Applicable Final Terms" above for the form of Final Terms which will include the meaning of certain terms used in the following Terms and Conditions or specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Tesco Personal Finance PLC (the **Issuer**) constituted by a Trust Deed (as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 31st October, 2012 made between the Issuer and Capita Trust Company Limited (the **Trustee**, which expression shall include any successor as trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note, units of each Specified Denomination in the Specified Currency;
- (ii) definitive Notes issued in exchange for a global Note; and
- (iii) any global Note.

The Notes and the Coupons (as defined below) also have the benefit of an Agency Agreement (as modified and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 31st October, 2012 and made among the Issuer, HSBC Bank plc, as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent specified in the applicable Final Terms), any other paying agent named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and the Trustee.

Interest bearing definitive Notes have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note and which supplement these Terms and Conditions (the **Conditions**) References to the **applicable Final Terms** are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a global Note, be construed as provided below) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), all in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices. The following statements include summaries of, and are subject to, the detailed provisions of the Trust Deed and the applicable Final Terms. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee at 4th Floor, 40 Dukes Place, London EC3A 7NH, and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing and copies may be obtained from the registered office of the Issuer and from the specified office of the Paying Agents save that, if this Note is neither admitted to trading on a regulated market in an EEA State nor offered to the public in an EEA State in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a

regulatory information service (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are binding on them.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of any inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denomination(s) (the **Specified Denomination(s)**) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an RPI-Linked Interest Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an RPI-Linked Redemption Note depending on the Redemption Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer, the Trustee, the Agent and any other Paying Agent may deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph. For so long as any of the Notes is represented by a global Note held on behalf of Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and/or Euroclear Bank S.A./N.V. (**Euroclear**) each person (other than Clearstream, Luxembourg or Euroclear) who is for the time being shown in the records of Clearstream, Luxembourg or of Euroclear as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Clearstream, Luxembourg or Euroclear as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant global Note shall be treated by the Issuer, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly. Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or of Euroclear, as the case may be. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest or proven error, be conclusive and binding on all concerned.

References to Clearstream, Luxembourg and/or Euroclear shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Trustee and the Agent and specified in Part B of the applicable Final Terms.

2. Status of the Notes

The Notes and the relative Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain debts preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

3. Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed) neither the Issuer nor any of its Subsidiaries (as defined in the Trust Deed) will create any mortgage, standard security, assignation in security, charge, pledge, lien or other security interest (other than a Permitted Security Interest) on any of its present or future undertaking or assets or enter into any arrangement, the practical effect of which is to grant similar security (other than a Permitted Security Interest), in either case in respect of (i) any Obligation of the Issuer or any other person or (ii) any guarantee or indemnity in respect of any Obligation of the Issuer or any other person, without at the same time securing the Notes and the Coupons and all amounts payable under the Trust Deed equally and rateably therewith to the satisfaction of the Trustee or providing such other security therefor which the Trustee in its absolute discretion shall deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

Obligation means any present or future indebtedness evidenced by notes, bonds, debentures (as defined in Section 738 of the Companies Act 2006) or other securities which, except where it is the intention of the Issuer or the relevant Subsidiary that such securities will not be so quoted or traded, are, at the request or with the concurrence of the Issuer or such Subsidiary, quoted or traded for the time being on any stock exchange or other generally recognised market for securities, excluding (i) any secured loan stock listed on the Official List denominated or payable in Sterling and initially distributed primarily to investors in the United Kingdom and (ii) any such indebtedness incurred by a newly established Subsidiary of the Issuer (the **New Subsidiary**) and applied for the purpose of acquiring assets from the Issuer or any other person and in respect of which the person to whom such indebtedness is owed has no recourse whatsoever to the Issuer, the New Subsidiary or any other Subsidiary, as the case may be, for repayment other than (A) recourse to the relevant New Subsidiary for amounts limited to the cash flow or net cash flow (other than historical cash flow or historical net cash flow) from the asset or assets which were so acquired by the New Subsidiary, and available receipts from liquidity drawings and hedge counterparties which are related to the indebtedness to be repaid by the New Subsidiary, in each case which are the subject of such security or (B) recourse to the Issuer or other person, as the case may be, directly or indirectly under any form of obligation or warranty in respect of the acquisition of such assets, which recourse is limited to a claim for a breach of such obligation or warranty (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect of the indebtedness incurred for the purposes of funding the acquisition itself) by the person against whom such recourse is available.

Permitted Security Interest means a lien arising by operation of law or any security interest created either (i) by any Subsidiary of the Issuer over the whole or any part of the present or future assets, undertakings or revenues of such Subsidiary or (ii) by the Issuer over a specifically indentified Asset Pool (as such term is defined in the Regulated Covered Bonds Regulations 2008 (as the same may be amended or re-enacted)), provided that in either case the creation of such security interest is pursuant to or in accordance with the relevant contractual arrangements or, as the case may be, specific provisions of the laws of England and Wales or Scotland relating to covered bonds (howsoever described) applicable at the time of creation of such security interest.

4. Interest

The applicable Final Terms will indicate whether the Notes are Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or RPI-Linked Interest Notes or a combination thereof.

- (a) *Interest on Fixed Rate Notes*: This Condition 4(a) applies to Fixed Rate Notes only. The applicable Final Terms contains provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 4(a) for full information on the manner in which interest is calculated on Fixed Rate Notes. In particular, the applicable Final Terms will specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Maturity Date, the Fixed Coupon

Amount, any applicable Broken Amount, the Calculation Amount, the Fixed Day Count Fraction and any applicable Determination Date.

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will, if so specified in the applicable Final Terms, amount to the Broken Amount(s) so specified.

As used in these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such global Note; or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In these Conditions:

Fixed Day Count Fraction means:

- (i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360;

Determination Period means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the

first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Floating Rate Notes*: This Condition 4(b) applies to Floating Rate Notes only. The applicable Final Terms contains provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 4(b) for full information on the manner in which interest is calculated on Floating Rate Notes. In particular, the applicable Final Terms will identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional Business Centre(s), whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Agent, the Margin, any maximum or minimum interest rates and the Day Count Fraction. Where (a) ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date, and (b) Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Relevant Financial Centre, Interest Determination Date(s) and Relevant Screen Page.

(i) *Interest Payment Dates*: Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, **Business Day** means a day which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency

deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is New Zealand dollars or Australian dollars, shall be Auckland and Sydney, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open. In these Conditions, **TARGET2 System** means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System.
- (ii) *Rate of Interest*: The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

- (A) *ISDA Determination for Floating Rate Notes*: Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the **ISDA Definitions**) and under which: (1) the Floating Rate Option is as specified in the applicable Final Terms; (2) the Designated Maturity is a period specified in the applicable Final Terms; and (3) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

- (B) *Screen Rate Determination for Floating Rate Notes*: Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:
 - (1) the offered quotation; or
 - (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (Relevant Financial Centre time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

- (iii) *Minimum and/or Maximum Interest Rate*: If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest. If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period

determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

- (iv) *Determination of Rate of Interest and calculation of Interest Amounts:* The Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are represented by a global Note, the aggregate outstanding nominal amount of the Notes represented by such global Note; or
 (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Floating Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In these Conditions, **Floating Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period in accordance with this Condition 4(b):

- (i) if "Actual/Actual" or "Actual/Actual (ISDA)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
 (ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
 (iii) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
 (iv) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (v) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (vi) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D₁" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

- (v) *Notification of Rate of Interest and Interest Amounts:* The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in London.
- (vi) *Determination or Calculation by Trustee:* If for any reason the Agent at any time after the Issue Date defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (iv) above, the Trustee (or an agent appointed by the Trustee) shall determine the Rate of Interest at such rate as, in its absolute discretion (having

such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent (and, where practicable, in accordance with this Condition).

- (vii) *Certificates to be Final*: All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Trustee, the other Paying Agents and all Noteholders, and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.
- (c) *Interest on RPI-Linked Interest Notes*: This Condition 4(c) applies to RPI-Linked Interest Notes only. The applicable Final Terms contains provisions applicable to the determination of RPI-linked interest and must be read in conjunction with this Condition 4(c) and Condition 5 for full information on the manner in which interest is calculated on the RPI-Linked Interest Notes. In particular, the applicable Final Terms will identify the Interest Commencement Date, any Specified Interest Payment Dates, any Specified Period, any applicable Business Day Convention, any Additional Business Centres, the Rate of Interest, the party who will calculate the amount of interest due if it is not the Agent and the applicable Day Count Fraction.
- (i) *Interest Payment Dates*: Each RPI-Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:
- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(c)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, **Business Day** means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
 - (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is New Zealand dollars or Australian dollars, shall be Auckland and Sydney, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.
- (ii) *Rate of Interest*: The Rate of Interest payable from time to time in respect of RPI-Linked Interest Notes will be as specified in the applicable Final Terms. Amounts of interest payable in respect of RPI-Linked Interest Notes determined by reference to the applicable Rate of Interest shall be subject to adjustment in accordance with Condition 5(b).
- (iii) *Determination of applicable Index Ratio or Limited Index Ratio and calculation of Interest Amounts*: The Calculation Agent will, at or as soon as practicable after each time at which the Index Ratio or Limited Index Ratio (as applicable) applicable to any payment of interest in respect of the Notes becomes capable of being determined, determine the Index Ratio or Limited Index Ratio (as applicable) applicable to the relevant payment of interest.

The Calculation Agent will calculate the amount of interest (the **Interest Amount**) payable on the RPI-Linked Interest Notes in respect of any period by applying the Rate of Interest to:

- (A) in the case of RPI-Linked Interest Notes which are represented by a global Note, the aggregate outstanding nominal amount of the Notes represented by such global Note; or
- (B) in the case of RPI-Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by (1) the applicable Fixed Day Count Fraction (as defined in Condition 4(a)) or Floating Day Count Fraction (as defined in Condition 4(b)) and (2) the applicable Index Ratio or Limited Index Ratio in accordance with Condition 5(b), and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of an RPI-Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

- (iv) *Notification of Interest Amounts*: The Calculation Agent will cause the Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Agent as soon as practicable after determining the same. The Agent will cause such amounts to be notified to the Issuer and any stock exchange on which the relevant RPI-Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in Condition 4(b)(v)) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified by the Agent to each stock exchange on which the relevant RPI-Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14.
- (v) *Determination or Calculation by Trustee*: If for any reason at any time after the Issue Date the Calculation Agent defaults in its obligation to determine the Index Ratio or Limited Index Ratio applicable to any payment of interest in respect of the Notes or defaults in its obligation to calculate any Interest Amount for any Interest Period(s), in each case in accordance with subparagraph (iii) above or as otherwise specified in the applicable Final Terms, as the case may be, the Trustee (or an agent appointed by the Trustee) shall determine the Index Ratio or Limited Index Ratio applicable to the relevant payment at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition and to the provisions

of Condition 5), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) for the relevant period(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent (and, where practicable, in accordance with this Condition).

- (vi) *Certificates to be Final*: All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(c), whether by the Calculation Agent, the Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the Agent, the Trustee, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Calculation Agent, the Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.
- (d) *Accrual of Interest*: Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

5. Indexation

This Condition 5 is applicable only if the applicable Final Terms specifies the Notes as RPI-Linked Interest Notes and/or RPI-Linked Redemption Notes.

(a) Definitions:

Base Index Figure means (subject to Condition 5(c)(i)) the Base Index Figure specified in the applicable Final Terms;

Index or **Index Figure** means, subject as provided in Condition 5(c)(i), the U.K. Retail Prices Index (**RPI**) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the U.K. Retail Prices Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference in these Conditions and/or the applicable Final Terms to the **Index Figure applicable** to a month or date shall, subject in each case as provided in Conditions 5(c) and 5(e):

- (i) if the applicable Final Terms specify the Index Figure applicable to a particular month, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication; or
- (ii) if the applicable Final Terms specify the Index Figure applicable to the first calendar day of any month, be construed as a reference to the Index Figure published in the second month prior to that particular month and relating to the month before that of publication; or
- (iii) if the applicable Final Terms specify the Index Figure applicable to any other day in any month, be calculated by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the specified day falls, calculated as described in sub-paragraph (ii) above, and (y) the Index Figure applicable to the first calendar day of the month following the month in which the specified day falls, calculated as described in sub-paragraph (ii) above, and rounded to the nearest fifth decimal place (0.000005 being rounded upwards);

Index Ratio applicable to any month or date, as the case may be, means the Index Figure applicable to such month or date, as the case may be, divided by the Base Index Figure and rounded to the nearest fifth decimal place (0.000005 being rounded upwards);

Limited Index Ratio means (a) in respect of any month or date, as the case may be, prior to the relevant Issue Date, the Index Ratio for that month or date, as the case may be, (b) in respect of any Limited Indexation Date after the relevant Issue Date, the product of the Limited Indexation Factor for that month or date, as the case may be, and the Limited Index Ratio as previously calculated in respect of the month or date, as the case may be, twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

Limited Indexation Date means any date falling during the period specified in the applicable Final Terms for which a Limited Indexation Factor is to be calculated;

Limited Indexation Factor means, in respect of a Limited Indexation Month or Limited Indexation Date, as the case may be, the ratio of the Index Figure applicable to that month or date, as the case may be, divided by the Index Figure applicable to the month or date, as the case may be, twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor (if any) specified in the applicable Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor (if any) specified in the applicable Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

Limited Indexation Month means any month specified in the applicable Final Terms for which a Limited Indexation Factor is to be calculated;

Limited Index Linked Notes means RPI-Linked Notes in respect of which a Maximum Indexation Factor and/or a Minimum Indexation Factor is specified in the applicable Final Terms; and

Reference Gilt means the Treasury Stock specified in the applicable Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer (an **Indexation Adviser**).

(b) *Application of the Index Ratio:*

Each payment of (A) in the case of RPI-Linked Interest Notes, interest and (B) in the case of RPI-Linked Redemption Notes, principal (including each Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount) in respect of the Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or (in the case of Limited Index Linked Notes) the Limited Index Ratio applicable to the month or date, as the case may be, in or on which such payment falls to be made and rounded in accordance with Condition 4(c)(iii) provided that, in the case of RPI-Linked Redemption Notes:

- (i) if a Minimum Final Redemption Amount, Minimum Early Redemption Amount and/or Minimum Optional Redemption Amount is specified in the applicable Final Terms and such amount is greater than the amount of principal in respect of the Notes determined in accordance with this Condition 5(b), the Final Redemption Amount, Early Redemption Amount and/or Optional Redemption Amount (as applicable) per Calculation Amount shall be, respectively, the Minimum Final Redemption Amount, Minimum Early Redemption Amount and/or Minimum Optional Redemption Amount (as applicable) so specified in the applicable Final Terms; and/or
- (ii) if a Maximum Final Redemption Amount, Maximum Early Redemption Amount and/or Maximum Optional Redemption Amount is specified in the applicable Final Terms and such amount is less than the amount of principal in respect of the Notes determined in accordance with this Condition 5(b), the Final Redemption Amount, Early Redemption Amount and/or Optional Redemption Amount (as applicable) per Calculation Amount shall be, respectively, the Maximum Final Redemption Amount, Maximum Early Redemption Amount or Maximum Optional Redemption Amount (as applicable) so specified in the applicable Final Terms.

(c) *Changes in Circumstances Affecting the Index:*

- (i) Change in base: If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the month from and including that in which such substitution takes effect or the first date from and including that on which such substitution takes effect, as the case may be, (A) the definition of "Index" and "Index Figure" in Condition 5(a) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor), and (B) the new "Base Index Figure" shall be the product of the existing Base Index Figure and the Index Figure applicable to the date on which such substitution takes effect, divided by the Index Figure applicable to the date immediately preceding the date on which such substitution takes effect.
- (ii) Delay in publication of Index if sub-paragraph (i) of the definition of Index Figure is applicable: If the Index Figure which is normally published in the seventh month and which relates to the eighth month (the **relevant month**) before the month in which a payment is due to be made is not published on or before the 14th business day before the date on which such payment is due (the **date for payment**), the Index Figure applicable to the month in which the date for payment falls shall be (A) such substitute index figure (if any) as the Trustee considers (acting

solely on the advice of the Indexation Adviser) to have been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Trustee (acting solely on the advice of the Indexation Adviser)) or (B) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 5(c)(i)) before the date for payment.

- (iii) Delay in publication of Index if sub-paragraph (ii) and/or (iii) of the definition of Index Figure is applicable: If the Index Figure relating to any month (the **calculation month**) which is required to be taken into account for the purposes of the determination of the Index Figure for any date is not published on or before the 14th business day before the date on which such payment is due (the **date for payment**), the Index Figure applicable for the relevant calculation month shall be (A) such substitute index figure (if any) as the Trustee considers (acting solely on the advice of the Indexation Adviser) to have been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Trustee (acting solely on the advice of the Indexation Adviser)) or (B) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 5(c)(i)) before the date for payment.

(d) *Application of Changes:*

Where the provisions of Condition 5(c)(ii) or Condition 5(c)(iii) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls or the date for payment, as the case may be, shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 5(c)(ii)(B) or Condition 5(c)(iii)(B), as applicable, the Index Figure relating to the relevant month or relevant calculation month, as the case may be, is subsequently published while a Note is still outstanding, then:

- (i) in relation to a payment of (A) in the case of RPI-Linked Interest Notes, interest and/or (B) in the case of RPI-Linked Redemption Notes, principal in respect of such Note other than upon final redemption of such Note, the interest and/or principal (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced, as the case may be, by an amount equal to the shortfall or excess, as the case may be, of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 5(c)(ii)(B) or Condition 5(c)(iii)(B) below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the 14th business day before the date for payment; and
- (ii) in relation to a payment of (A) in the case of RPI-Linked Interest Notes, interest and/or (B) in the case of RPI-Linked Redemption Notes, principal upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) *Cessation of or Fundamental Changes to the Index:*

- (i) If (1) the Trustee has been notified by the Calculation Agent that the Index has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of (A) the Issuer be materially prejudicial to the interests of the Issuer, or (B) the Trustee (acting solely on the advice of the Indexation Adviser), be materially prejudicial to the interests of the Noteholders, the Trustee will give written notice of such occurrence to the Issuer (in the case of (1) or (2)(B) above) and the Issuer will give written notice of such occurrence to the Trustee (in the event of (2)(A) above), and the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) together shall seek to agree for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Noteholders in no better and no worse a position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) fail to reach agreement as mentioned above within 20 London Business Days (as defined in Condition 4(b)(v)) following the giving of notice as mentioned in paragraph (i), a bank or other person in

London shall be appointed by the Issuer and the Trustee or, failing agreement on and the making of such appointment within 20 London Business Days following the expiry of the 20 London Business Day period referred to above, by the Trustee (acting solely on the advice of the Indexation Adviser) (in each case, such bank or other person so appointed being referred to as the **Expert**), to determine for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Noteholders in no better and no worse a position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Trustee in connection with such appointment shall be borne by the Issuer.

- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, with effect from such date as may be agreed by the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) or as determined by the Expert, as the case may be, and references in these Conditions to the "Index" and to any "Index Figure" shall be deemed amended in such manner as the Trustee (acting solely on the advice of the Indexation Adviser) and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be binding upon the Issuer, the Trustee, the Noteholders and the Couponholders, and the Issuer shall give notice to the Noteholders in accordance with Condition 14 of such amendments as promptly as practicable following such agreement or determination.

6. Payments

- (a) *Method of Payment:*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars or Australian dollars, shall be Auckland and Sydney, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

References to **Specified Currency** will include any successor currency under applicable law.

- (b) *Presentation of Notes and Coupons:* Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form (other than RPI-Linked Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if

later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or RPI-Index Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant global Note, where applicable, against presentation or surrender, as the case may be, of such global Note at the specified office of any Paying Agent. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such global Note by such Paying Agent or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

The holder of a global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Clearstream, Luxembourg or Euroclear as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Clearstream, Luxembourg or Euroclear, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such global Note.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of this Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of this Note will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
 - (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
 - (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.
- (c) *Payment Day*: If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:
- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
(A) in the case of Notes in definitive form only, the relevant place of presentation; and (B) each Additional Financial Centre specified in the applicable Final Terms; and
 - (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is New Zealand dollars or Australian dollars, shall be Auckland and Sydney, respectively) or (2) in relation to any sum payable in euro a day on which the TARGET2 System is open.
- (d) *Interpretation of Principal and Interest*: Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or pursuant to any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(f)(iii)); and
- (vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. Redemption and Purchase

- (a) *At Maturity*: Unless previously redeemed or purchased and surrendered for cancellation as specified below, each Note (including each RPI-Linked Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms (subject, in the case of RPI-Linked Redemption Notes, to adjustment in accordance with Condition 5(b)) in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.
- (b) *Redemption for Tax Reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an RPI-Linked Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an RPI-Linked Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Trustee and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of the aforementioned notice that:
 - (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and
 - (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

- (c) *Redemption for Index Reasons*: In the case of RPI-Linked Redemption Notes, if either (i) the Index Figure for three consecutive months is required to be determined on the basis of an Index Figure previously published as provided in Condition 5(c)(ii)(B) or Condition 5(c)(iii)(B), as applicable, and the

Trustee has been notified by the Calculation Agent that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index shall have been advised by the Indexation Adviser to the Issuer and such circumstances are continuing, the Issuer may, upon giving not more than the maximum period and not less than the minimum period of notice specified in the applicable Final Terms to the Noteholders in accordance with Condition 14, redeem all, but not some only, of the Notes at their Early Redemption Amount referred to in paragraph (f) below together (if applicable) with interest accrued to and (but excluding) the date of redemption.

- (d) *Redemption at the Option of the Issuer (Issuer Call)*: This Condition 7(d) applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation or indexation reasons), such option being referred to as an **Issuer Call**. The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 7(d) for full information on any Issuer Call. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount, any minimum or maximum amount of Notes which can be redeemed and the applicable notice periods.

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer shall, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms (subject, in the case of RPI-Linked Redemption Notes, to adjustment in accordance with Condition 5(b)) together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date (such interest, in the case of RPI-Linked Interest Notes only, to be adjusted in accordance with Condition 5(b)). Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than the Higher Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Clearstream, Luxembourg and/or Euroclear (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 10 days prior to the date fixed for redemption. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least 5 days prior to the Selection Date.

- (e) *Redemption at the Option of the Noteholders (Investor Put)*: This Condition 7(e) applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Noteholder, such option being referred to as an **Investor Put**. The applicable Final Terms contains provisions applicable to any Investor Put and must be read in conjunction with this Condition 7(e) for full information on any Investor Put. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount and the applicable notice periods.

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than the minimum nor more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in the applicable Final Terms (subject, in the case of RPI-Linked Redemption Notes, to adjustment in accordance with Condition 5(b)) together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date (such interest, in the case of RPI-Linked Interest Notes only, to be adjusted in accordance with Condition 5(b)).

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is by

cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable unless the Issuer otherwise agrees.

(f) *Early Redemption Amounts:* For the purpose of paragraphs (b) and (c) above and Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount; or
- (iii) in the case of Zero Coupon Notes, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Final Terms which will either be (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each in the case of any currency other than Sterling and euro and on the basis of a year of 365 days, or 366 days in the case of a leap year, in the case of Sterling and euro from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual 360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

- (iv) in the case of RPI-Linked Notes, at the outstanding nominal amount thereof, subject to adjustment in accordance with Condition 5(b).
- (g) *Purchases:* The Issuer or any of its Subsidiaries may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.
- (h) *Cancellation:* All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and Notes purchased and surrendered for cancellation pursuant to paragraph (f) above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.
- (i) *Late payment on Zero Coupon Notes:* If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c), (d) or (e) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated

as provided in paragraph (f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. Taxation

All payments of principal and interest in respect of the Notes and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been received in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amount shall be payable with respect to any Note or Coupon:

- (i) presented for payment by or on behalf of a Noteholder or Couponholder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6 — Payments); or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (v) presented for payment in the United Kingdom; or
- (vi) where such withholding or deduction would have been avoided by the Noteholder or Couponholder (or a person on behalf of the Noteholder or Couponholder) complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any relevant taxing authority of or in the United Kingdom.
- (vii) As used herein, the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

All payments in respect of the Notes will be made subject to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

9. Prescription

The Notes, and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), (but, in the case of the happening of any of the events mentioned in sub-paragraphs (ii) to (viii) inclusive below (other than the winding-up of, or the appointment of an administrative or other receiver of the whole or any part of the undertaking or assets of, the Issuer), only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and payable at the Early Redemption Amount (as defined in Condition 7(f)), together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing:

- (i) if default is made for a period of seven days or more in the payment of any principal in respect of the Notes or any of them or for a period of 14 days or more in the payment of any interest in respect of the Notes or any of them; or
- (ii) if an order is made or an effective resolution passed for winding-up the Issuer or any Material Subsidiary (as defined below) (except, in the case of a Material Subsidiary, a winding-up for the purpose of a reconstruction or amalgamation, the terms of which have previously been approved in writing by the Trustee, or a voluntary solvent winding-up in connection with the transfer of all or the major part of the business, undertaking and assets of such Material Subsidiary to the Issuer or a Subsidiary); or
- (iii) if the Issuer or any Material Subsidiary stops or threatens to stop payment generally or ceases or threatens to cease to carry on all or substantially all of its business (except, in the case of a Material Subsidiary, a cessation or threatened cessation for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee, or in connection with the transfer of all or substantially all of the business, undertaking and assets of such Material Subsidiary to the Issuer or a Subsidiary); or
- (iv) if an encumbrancer takes possession or an administrative or other receiver is appointed of the whole or any material part of the undertaking or assets of the Issuer or any Material Subsidiary or if a distress, execution, attachment, arrestment, diligence or any similar proceeding is levied or enforced upon or sued out against any of the chattels or property of the Issuer or any Material Subsidiary and is not discharged within 21 days; or
- (v) if the Issuer or any Material Subsidiary is deemed unable to pay its debts within the meaning of Section 123(1)(b), (c) or (d) of the Insolvency Act 1986, or the Issuer or any Material Subsidiary becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or the Issuer or any Material Subsidiary otherwise becomes insolvent, or the Issuer or any Material Subsidiary suspends making payments (whether of principal or interest) with the respect to all or any class of its debts or announces an intention to do so or if an administration order in relation to the Issuer or any Material Subsidiary is made; or
- (vi) if any kind of composition, scheme of arrangement, compromise or other similar arrangement involving the Issuer or any Material Subsidiary and the creditors of any of them generally (or any class of such creditors) is entered into or made; or
- (vii) if any indebtedness for Moneys Borrowed (as defined below) having an aggregate outstanding principal amount of at least £25,000,000 (or its equivalent in any other currency or currencies at the date declared due) of the Issuer or any Material Subsidiary shall be or be declared due and payable prior to the date on which the same would otherwise become due and payable by reason of the occurrence of an event of default (howsoever described) in relation thereto or the Issuer or any Material Subsidiary defaults in the repayment of any indebtedness for Moneys Borrowed having an aggregate outstanding principal amount of at least £25,000,000 (or its equivalent in any other currency or currencies at the date of maturity) at the maturity thereof or at the expiry of any

applicable grace period or any guarantee of any such indebtedness given by the Issuer or any Material Subsidiary shall not be paid when due and called upon save in any such case where there is a *bona fide* dispute as to whether payment or repayment is due; or

- (viii) if default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) and, except where, in the opinion of the Trustee, such default is not capable of remedy (in which case the Notes will become due and repayable subject to, and immediately upon, the Trustee certifying and giving notice as aforesaid), such default continues for 30 days after written notice thereof by the Trustee to the Issuer requiring the same to be remedied.

Material Subsidiary means (a) a Subsidiary of the Issuer whose profits before tax and extraordinary items or whose net assets (in each case attributable to the Issuer) calculated by reference to its latest audited accounts represent ten (10) per cent. or more of the consolidated profits before tax and extraordinary items or net assets (in each case attributable to the Issuer), as the case may be, of the Issuer and its Subsidiaries similarly calculated, all as more particularly defined in the Trust Deed, and (b) in addition, for the purposes of sub-paragraph (vii) above, a Subsidiary which has outstanding any notes, bonds or other like securities of which the Trustee is trustee. A certificate of any two directors of the Issuer that in their opinion a Subsidiary is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

Moneys Borrowed means (a) borrowed moneys, and (b) liabilities under any note, bond, bill, debenture, loan stock or other security in each case issued for cash or in respect of acceptance credit facilities or as consideration for assets or services but excluding such liabilities incurred in relation to the acquisition of goods or services in the ordinary course of trading.

At any time after the Notes become due and repayable and have not been repaid, the Trustee may at its discretion and without further notice take such proceedings against the Issuer as it may think fit to enforce the obligations of the Issuer under the Trust Deed and the Notes and the relative Coupons, but it shall not be bound to take any such proceedings or any other action unless (i) it shall have been so directed by an Extraordinary Resolution of the holders of the Notes or so requested in writing by holders of at least one-fifth in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No holder of a Note, or of a Coupon appertaining thereto, shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure is continuing.

11. Replacement of Notes, Coupons and Talons

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent, or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 14, upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

12. Agent and Paying Agents

The names of the initial Agent in respect of the Notes and the other initial Paying Agents in respect of the Notes and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is, with the prior written approval of the Trustee, entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (which may be the Agent) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or any other relevant authority;

- (ii) the Issuer undertakes that it will ensure that it maintains at all times a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with or introduced in order to confirm to, such Directive;
- (iii) there will at all times be an Agent and, in the case of RPI-Linked Notes, a Calculation Agent; and
- (iv) there will at all times be a Paying Agent in a jurisdiction in Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 6(b). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

13. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. Notices

All notices regarding the Notes will be valid if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* or any other daily newspaper in London approved by the Trustee or, if this is not possible, in another English language daily newspaper approved by the Trustee with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the first date on which publication has been made in all the required newspapers.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed on a stock exchange or admitted to trading by any other relevant authority, such stock exchange or other relevant authority permits), so long as the global Note(s) is or are held in its/their entirety on behalf of Clearstream, Luxembourg and Euroclear, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Clearstream, Luxembourg and Euroclear for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the day after the day on which the said notice was given to Clearstream, Luxembourg and Euroclear.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Clearstream, Luxembourg and/or Euroclear, as the case may be, in such manner as the Agent and Clearstream, Luxembourg and/or Euroclear, as the case may be, may approve for this purpose.

15. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions, the Notes, the Coupons or certain provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee or by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of these Conditions, the Notes or Coupons (including modifying the date of maturity of the

Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or Coupons) or certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than a clear majority, in nominal amount of the Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in principal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in principal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders shall be binding on all the Noteholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an Event of Default, shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification of any of these Conditions, the Notes, the Coupons or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error or an error which is, in the opinion of the Trustee, proven. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

16. Further Issues

The Issuer shall be at liberty from time to time (but subject always to the terms of the Trust Deed) without the consent of the Noteholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. Substitution

The Trustee may, without the consent of the Noteholders or the Couponholders, agree with the Issuer to the substitution of any new holding company or Subsidiary of the Issuer in place of the Issuer (or of any previous substitute under this provision) as the principal debtor under the Notes, the Coupons and the Trust Deed, subject to the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced thereby and certain other conditions set out in the Trust Deed being complied with.

18. Indemnification

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified and/or secured and/or prefunded to its satisfaction.

19. Governing Law

The Trust Deed, the Agency Agreement, the Notes, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with any of them are governed by, and shall be construed in accordance with, English law.

20. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

Use of Proceeds

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of an issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

Selected Financial Information

The following table sets out summary financial information relating to the Issuer, its subsidiaries and associated undertaking (together, the **Group**) for the two financial years ended 29th February, 2012 and 28th February, 2011 and for the six months ended 31st August, 2012 and the six months ended 31st August, 2011. The summary information for the two financial years ended 29th February, 2012 and 28th February, 2011 has been extracted without material adjustment from the Issuer's audited consolidated financial statements for the year ended 29th February, 2012. The summary information for the six months ended 31st August, 2012 and for the six months ended 31st August, 2011 has been extracted without material adjustment from the Issuer's unaudited interim financial statements for the six months ended 31st August, 2012.

The financial information is only a summary and should be read in conjunction with and is qualified by reference to the financial information and notes included elsewhere in this Offering Circular.

Consolidated Income Statement

	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 Comparison†	6 months to 31st August 2012*	6 months to 31st August 2011 Comparison†
	£'000	£'000	£'000	£'000
Interest and similar income	425,647	420,161	204,865	213,277
Interest expense and similar charges	(166,601)	(147,128)	(89,016)	(79,182)
Net Interest Income	<u>259,046</u>	<u>273,033</u>	<u>115,849</u>	<u>134,095</u>
Fees and commissions income	517,920	285,731	259,940	260,411
Fees and commissions expense	(22,530)	(20,291)	(11,401)	(10,856)
Provision for customer redress	(57,400)	50,000	(30,000)	(57,400)
Other income.....	—	—	30,000	—
Net Fees and commissions income	<u>437,990</u>	<u>315,440</u>	<u>248,539</u>	<u>192,155</u>
Gains/(Losses) on financial assets	498	(610)	2,629	266
Realised gain on investment securities	4,749	564	7,557	392
.....	5,247	(46)	10,186	658
Total Income	<u>702,283</u>	<u>588,427</u>	<u>374,574</u>	<u>326,908</u>
Administrative expenses	(378,945)	(306,519)	(204,341)	(198,519)
Depreciation and amortisation	(44,545)	(19,391)	(29,530)	(20,877)
Operating expenses	<u>(423,490)</u>	<u>(325,910)</u>	<u>(233,871)</u>	<u>(219,396)</u>
Impairment	(124,511)	(131,356)	(42,785)	(66,115)
Share of profit or (loss) of associate	5,269	(6,821)	7,354	4,205
Profit before tax	<u>159,551</u>	<u>124,340</u>	<u>105,272</u>	<u>45,602</u>
Taxation.....	(39,561)	(37,794)	(23,056)	(10,780)
Profit attributable to owners of the parent	<u>119,990</u>	<u>86,546</u>	<u>82,216</u>	<u>34,822</u>

Consolidated Statement of Comprehensive Income

	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 <i>Comparison†</i>	6 months to 31st August 2012*	6 months to 31st August 2012* <i>Comparison†</i>
	£'000	£'000	£'000	£'000
Profit for the year/period	119,990	86,546	82,216	34,822
Net gains on available for sale investment securities:				
Unrealised net gains/(losses), before tax	9,473	2,243	(5,797)	4,078
Cash flow hedges:				
Net gains arising on hedges recognised in other comprehensive income, before tax ..	276	1,099	—	132
Tax relating to components of other comprehensive income	(2,495)	(938)	1,662	(1,029)
Share of other comprehensive income of associate	3,205	—	6,173	—
Total comprehensive income attributable to owners of the parent	<u>130,449</u>	<u>88,950</u>	<u>84,254</u>	<u>38,003</u>

Consolidated Statement of Financial Position

	Audited		Unaudited	
	As at 29th February 2012*	As at 28th February 2011 <i>Comparison†</i>	As at 31st August 2012*	As at 31st August 2011* <i>Comparison†</i>
	£'000	£'000	£'000	£'000
Assets				
Cash and balances with central banks	455,809	136,848	1,000,103	398,264
Loans and advances to banks.....	93,132	403,598	150,447	—
Loans and advances to customers	4,423,582	4,679,184	4,535,556	4,585,701
Derivative financial instruments	19,522	16,378	36,369	12,397
Investment securities:				
— Available for sale	1,302,731	849,831	834,889	1,138,083
— Loans and receivables	292,931	292,931	300,083	292,931
Prepayments and accrued income	43,360	79,491	47,217	89,246
Other assets.....	454,815	142,668	455,719	378,382
Investment in associate	72,459	63,985	100,291	68,191
Intangible assets.....	336,995	215,275	374,151	290,426
Property, plant and equipment.....	109,807	111,373	98,569	99,765
Total assets	<u>7,605,143</u>	<u>6,991,562</u>	<u>7,933,394</u>	<u>7,353,386</u>
Liabilities				
Deposits from banks	77,706	36,200	5,100	120,789
Deposits from customers	5,389,787	5,077,464	5,435,867	5,126,323
Debt securities in issue	197,849	350,031	409,053	359,546
Derivative financial instruments	71,186	37,369	68,890	65,577
Provisions for liabilities and charges	78,341	39,477	82,745	92,318
Accruals and deferred income	132,370	185,151	137,712	174,468
Current tax liability.....	2,969	2,789	12,460	10,176
Other liabilities	106,139	18,067	104,951	73,819
Deferred tax liability.....	28,770	5,022	26,670	6,326
Subordinated liabilities	330,000	190,000	330,000	190,000
Total liabilities	<u>6,415,117</u>	<u>5,941,570</u>	<u>6,613,448</u>	<u>6,219,342</u>
Equity:				
Shareholders' funds:				
— Share capital	103,490	92,340	107,990	97,340
— Share premium account	931,410	831,060	971,910	876,060
— Retained earnings	90,244	79,341	171,967	110,212
— Other reserves	19,882	2,251	23,079	5,432
Subordinated notes	45,000	45,000	45,000	45,000
Total equity	<u>1,190,026</u>	<u>1,049,992</u>	<u>1,319,946</u>	<u>1,134,044</u>
Total liabilities and equity	<u>7,605,143</u>	<u>6,991,562</u>	<u>7,933,394</u>	<u>7,353,386</u>

Consolidated Statement of Changes in Equity

	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 <i>Comparison[†]</i>	6 months to 31st August 2012*	6 months to 31st August 2011 <i>Comparison[†]</i>
Balance at the beginning of the year/period	£'000	£'000	£'000	£'000
<i>Share capital</i>	92,340	47,790	103,490	92,340
<i>Share premium</i>	831,060	430,110	931,410	831,060
<i>Retained earnings</i>	79,341	155,799	90,244	79,341
<i>Subordinated Notes</i>	45,000	45,000	45,000	45,000
<i>Other reserves</i>	2,251	(153)	19,882	2,251
<i>Non-controlling interest</i>	—	2,005	—	—
Total	<u>1,049,992</u>	<u>680,551</u>	<u>1,190,026</u>	<u>1,049,992</u>
Comprehensive income				
Profit for the year/period				
<i>Retained earnings</i>	119,990	86,546	82,216	34,822
Total	<u>119,990</u>	<u>86,546</u>	<u>82,216</u>	<u>34,822</u>
Net gains/(losses) on available for sale investment securities				
<i>Other reserves</i>	7,053	1,615	(4,135)	3,086
Total	<u>7,053</u>	<u>1,615</u>	<u>(4,135)</u>	<u>3,086</u>
Net gains on cash flow hedges				
<i>Other reserves</i>	201	789	—	95
Total	<u>201</u>	<u>789</u>	<u>—</u>	<u>95</u>
Share of other comprehensive income of associate				
<i>Other reserves</i>	3,205	—	6,173	—
Total	<u>3,205</u>	<u>—</u>	<u>6,173</u>	<u>—</u>
Total comprehensive income	<u>130,449</u>	<u>88,950</u>	<u>84,254</u>	<u>38,003</u>
Transactions with owners				
Shares issued in year/period				
<i>Share capital</i>	11,150	44,550	4,500	5,000
<i>Share premium</i>	100,350	400,950	40,500	45,000
Total	<u>111,500</u>	<u>445,500</u>	<u>45,000</u>	<u>50,000</u>
Dividends to ordinary shareholders				
<i>Retained earnings</i>	(108,150)	(162,150)	—	(3,500)
Total	<u>(108,150)</u>	<u>(162,150)</u>	<u>—</u>	<u>(3,500)</u>
Dividends to holders of other equity holders				
<i>Retained earnings</i>	(937)	(854)	(493)	(451)
<i>Non-controlling interest</i>	—	(2,005)	—	—
Total	<u>(937)</u>	<u>(2,859)</u>	<u>(493)</u>	<u>(451)</u>
Share based payments				
<i>Other reserves</i>	7,172	—	1,159	—
Total	<u>7,172</u>	<u>—</u>	<u>1,159</u>	<u>—</u>
Total transactions with owners	<u>9,585</u>	<u>280,491</u>	<u>45,666</u>	<u>46,049</u>
Balance at the end of the year/period				
<i>Share capital</i>	103,490	92,340	107,990	97,340
<i>Share premium</i>	931,410	831,060	971,910	876,060
<i>Retained earnings</i>	90,244	79,341	171,967	110,212
<i>Subordinated Notes</i>	45,000	45,000	45,000	45,000
<i>Other reserves</i>	19,882	2,251	23,079	5,432
Total	<u>1,190,026</u>	<u>1,049,992</u>	<u>1,319,946</u>	<u>1,134,044</u>

Consolidated Cash Flow Statement

	Audited		Unaudited	
	12 months to 29th February 2012*	12 months to 28th February 2011 <i>Comparison</i> [†]	6 months to 31st August 2012*	6 months to 31st August 2011 <i>Comparison</i> [†]
	£'000	£'000	£'000	£'000
Operating activities				
Profit before taxation	159,551	124,340	105,272	45,602
Adjusted for:				
Non-cash items included in operating profit before taxation	239,036	100,981	86,332	142,043
Changes in operating assets and liabilities	230,329	163,781	(180,017)	(18,910)
Income taxes paid	(18,128)	(5,275)	(14,002)	(3,117)
Cash flows from operating activities	<u>610,788</u>	<u>383,827</u>	<u>(2,415)</u>	<u>165,618</u>
Investing activities				
Purchase of non-current assets.....	(165,431)	(206,586)	(79,613)	(94,248)
Purchase of available for sale investment securities	(729,368)	(424,357)	(30,922)	(337,735)
Sale of available for sale investment securities	183,072	165,756	461,885	29,171
Loan to associate	—	(34,431)	(7,152)	—
Investment in associate	—	(68,851)	(14,305)	—
Cash flows from investing activities	<u>(711,727)</u>	<u>(568,469)</u>	<u>329,893</u>	<u>(402,812)</u>
Financing activities				
Proceeds from issue of debt securities	59,587	125,559	198,401	—
Proceeds from issue of subordinated liabilities	140,000	—	—	—
Redemption of own debt securities	(225,000)	—	—	—
Proceeds from issue of share capital.....	111,500	445,500	45,000	50,000
Dividends paid to ordinary shareholders.....	(108,150)	(162,150)	—	(3,500)
Dividends paid to non controlling interest	—	(2,005)	—	—
Dividends paid to holders of other equity.....	(673)	(714)	(507)	(444)
Interest paid on subordinated liabilities	(3,712)	(2,783)	(4,026)	(1,672)
Cash flows from financing activities	<u>(26,448)</u>	<u>403,407</u>	<u>238,868</u>	<u>44,384</u>
Net (decrease)/increase in cash and cash equivalents	<u>(127,387)</u>	<u>218,765</u>	<u>566,346</u>	<u>(192,810)</u>
Cash and cash equivalents at the beginning of the year/period	<u>706,263</u>	<u>487,498</u>	<u>578,876</u>	<u>706,342</u>
Cash and cash equivalents at the end of the year/period	<u>578,876</u>	<u>706,263</u>	<u>1,145,222</u>	<u>513,532</u>

* During the financial year ended 29th February, 2012, the Issuer concluded that it was no longer appropriate for the Issuer to utilise the exemption available to the Issuer under International Accounting Standards (IAS) 27 'Consolidated and separate financial statements' and the Companies Act 2006, from the requirement to prepare group accounts. As a result, the Issuer's financials statements for the year ended 29th February, 2012 and for the six months ended 31st August, 2012 were prepared on a consolidated basis for the Group.

† As a result of the Issuer preparing its financial statements for the year ended 29th February, 2012 and for the six months ended 31st August, 2012 on a consolidated basis for the Group, the Issuer prepared comparative balances for the year ended 28th February, 2011 on a consolidated basis for the Group and for the six months ended 31st August, 2011 on a consolidated basis for the Group. The comparative balances of the Group for the year ended 28th February, 2011 and the six months ended 31st August, 2011 were prepared on the same basis as the financial statements of the Group for the year ended 29th February, 2012 (i.e. prepared on the basis that it was no longer appropriate for the Issuer to utilise the exemption available to the Issuer under IAS 27 and the Companies Act 2006 to prepare group accounts).

Tesco Personal Finance PLC

Overview

The Issuer is a wholly owned subsidiary of Tesco Personal Finance Group Limited (**TPFG**). TPFG in turn is a wholly owned subsidiary of Tesco PLC (**Tesco**), the holding company of the Tesco group of companies (the **Tesco Group**). The Issuer provides a wide range of retail financial service products, primarily in the United Kingdom, to personal customers.

For the six months ended 31st August, 2012, the Group's total income was £374,574,000 and as at 31st August, 2012 the Group's total assets were £7,933,394,000.

History and Development of Tesco Personal Finance PLC

TPFG was established in 1997 originally as a joint venture between Tesco and the Royal Bank of Scotland plc (**RBS**). In December 2008, Tesco acquired RBS's 50 per cent. shareholding in TPFG to become the sole shareholder of TPFG (the **Change of Control Transaction**).

The Issuer was incorporated in Scotland under the name Roboscot (27) Limited on 5th March, 1997, as a private limited company with limited liability. It changed its name to Tesco Personal Finance Limited with effect from 25th April, 1997. It was re registered as a public limited company under the legal name Tesco Personal Finance PLC pursuant to the Companies Act 1985 on 22nd December, 2008. The Issuer rebranded its business by changing its trading name to Tesco Bank on 29th June, 2009. The Issuer's decision to change its trading name to Tesco Bank formed part of the Issuer's strategic objective to communicate its broadened banking proposition to its customers.

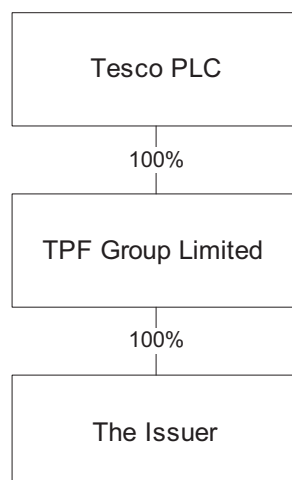
The registered office of the Issuer is Interpoint Building, 22 Haymarket Yards, Edinburgh EH12 5BH. The telephone number of the Issuer's registered office is +44(0)131 479 1000. The company number of the Issuer is SC173199.

The Group currently has an issued share capital of £107,990,000 comprising 1,079,900,000 ordinary shares of 10 pence each, all of which are fully paid.

The Issuer maintains a robust funding and liquidity position. As at 31st August, 2012, the Group had a Core Tier One capital ratio of 16.8 per cent. (16.2 per cent. as at 31st August, 2011).

Organisational Structure

Current Organisational Structure



Business Overview

The Issuer offers a range of retail financial service products to customers predominantly located within the United Kingdom. A significant proportion of the Issuer's United Kingdom customer base are existing Tesco Group customers that utilise other retail services offered by Tesco. As at 31st August, 2012, the Issuer had more than 6.5 million accounts and policies across its range of banking and insurance products. The products and services offered by the Issuer are advertised through and can be purchased by customers from the store network of Tesco, over the telephone and on the worldwide web via the website tescobank.com. As at the date of this Offering Circular, the Issuer generates approximately 82 per cent. of the sale of its retail financial service products from online sales to its customers.

The Issuer offers a range of retail financial service products through the following categories: general insurance, credit cards, personal loans, personal savings products, a network of automated teller machines (**ATMs**) and mortgages.

The Issuer initially utilised the business systems and infrastructure of RBS to offer and maintain a significant proportion of its products and services under a joint venture. However, following the Change of Control Transaction in 2008, the Issuer entered into a period of significant change and investment to develop and build its own business systems and infrastructure and thus allow it to migrate business systems and infrastructure and customer support from the RBS infrastructure. This programme of work was completed in May 2012.

Personal Banking

The Issuer offers lending products in the form of credit cards, personal unsecured loans and has recently launched a range of mortgage products.

The Issuer has a share in the United Kingdom credit card market of approximately 6.5 per cent. when measured on a Stock Holding Share basis and 10.1 per cent. when measured on a Stock Personal Share basis (GfK NOP Financial Research Survey (FRS), 3 months ending August 2012) and had total credit card receivables of £2.487 billion and 1.9 million active credit card accounts as at 31st August, 2012. A significant incentive to customers to utilise a credit card issued by the Issuer is that a customer may benefit by earning reward points on all amounts spent on their credit card. Such reward points may be redeemed against further purchases made from sales mediums within the Tesco Group. The Issuer believes that it has a high quality and low risk portfolio of credit card customers. This is evidenced by the low level of credit card accounts that are three months or more in arrears being as at 31st August, 2012, approximately 1.8 per cent. of credit card balances.

As at 31st August, 2012, the value of the Issuer's loan book was £2.4 billion and the Issuer had approximately 331,000 personal loan customers. The Issuer currently has approximately a 2.9 per cent. share of the United Kingdom personal loan market (GfK NOP Financial Research Survey (FRS), Stock Holding Share, 3 months ending August 2012).

As at 31st August, 2012, the Issuer had approximately 548,000 savings account customers and total savings balances of £5.4 billion in instant access savings products such as Tesco Internet Savings Accounts and Tesco Instant Access Savings Accounts as well as Fixed Rate Saving Accounts. The Issuer currently has approximately a 0.6 per cent. share of the United Kingdom savings market (GfK NOP Financial Research Survey (FRS), Stock Holding Share, 3 months ending August 2012).

The Issuer's strategic objectives to develop and embed its own business systems and infrastructure are now complete following the Banking, Insurance and Finance platform and customer migrations from the RBS infrastructure. The final migration, in respect of credit cards, completed in May 2012.

Automated Teller Machines

The Issuer operates one of the largest networks of ATMs in the United Kingdom. The Issuer has over 3,700 ATMs within its network which process in excess of 32 million cash withdrawal transactions a month. The Issuer has outsourced the management of its ATMs to RBS. The Issuer's ATM business is a reliable source of earnings for the Issuer as a result of fees generated through the LINK system i.e. on each occasion when a customer uses an ATM, that customer's card issuing bank will pay an 'interchange fee' to RBS through the LINK system which is paid to the Issuer by RBS. Interchange fees are set annually based upon an agreed mechanism with the proposed fees being voted upon by LINK members. The Issuer's ATM network experiences a high level of usage which results from each ATM's convenient location within Tesco stores.

The Issuer intends to pursue a strategy to expand its ATM network — predominantly through installation of new ATMs at new-build Tesco Express stores.

General Insurance

The Issuer has a significant insurance business distributing a range of general insurance products such as car, home, travel, breakdown, pet insurance and a range of personal protection insurance (which comprises life, health, payment protection and dental insurance). The Issuer currently has in issue approximately 2.2 million insurance policies through its distribution arrangements with the insurance underwriters. The Issuer is one of the leading distributors of motor insurance in the United Kingdom with approximately 1.1 million car insurance policies in issue and a share of 4.4 per cent. of the United Kingdom motor insurance market (GfK NOP Financial Research Survey (FRS), Stock Holding Share, 3 months ending August 2012). The Issuer currently has a 2.0 per cent. share of the United Kingdom home insurance market (GfK NOP Financial Research Survey (FRS), Stock Holding Share, 3 months ending August 2012).

As part of the Issuer's strategic development of the operational platform and technical expertise of its general insurance business, the Issuer entered into an agreement in September 2009 with Ageas Insurance Limited (formerly Fortis (UK) Ltd (**Ageas**)) for its motor and home insurance products. The Issuer has primary responsibility for sales and service capability and to act as an intermediary and Ageas provides expertise in claims-handling and underwriting. Since October 2010, the majority of home and motor insurance business sold has been underwritten by Tesco Underwriting Limited, which is an authorised insurance company owned 49.9 per cent. by the Issuer and 50.1 per cent. by Ageas Insurance Limited). Tesco Underwriting Limited provides an underwriting and claims handling service. This arrangement, provides the Issuer with significant influence over its insurance business whilst providing a greater ability to meet the needs of Tesco customers along with flexibility and sustainability over the longer term. Importantly, customer pricing and sales and service activity are, as a result of this agreement, under the direct control of the Issuer. Tesco Underwriting Limited began selling, underwriting and providing claims management to the Issuer's new insurance business in October 2010 and the Issuer's existing insurance policy renewals migrated across to Tesco Underwriting Limited at their point of renewal. The renewal migration process was completed in November 2011.

The Issuer had a historic distribution arrangement with Direct Line Group which was terminated earlier this year. Under the termination agreement, repayment of the £258.5 million of capital provided in respect of this arrangement is expected in the second half of the financial year.

Other insurance such as pet, life and dental care cover are distributed by the Issuer by means of a commission-based introduction agreement with a range of third party insurance companies.

International Business

Republic of Ireland

The Issuer is an authorised 'credit institution' under the laws of the Republic of Ireland. The activities of an authorised credit institution are directly regulated by the Irish Financial Regulator. By virtue of its authorised credit institution status, the Issuer is authorised to issue credit cards within the Republic of Ireland. As at 31st August, 2012, the Issuer had approximately 35,000 credit card accounts within the Republic of Ireland. Under a distribution arrangement, the Issuer acts as an introducer by marketing car, home and pet insurance underwritten by RSA Insurance Ireland Limited to its customers. The Issuer operates its insurance business in Ireland under an FSA passport (for insurance intermediation).

Funding and Liquidity

Funding is predominantly provided by retail deposits and as at 31st August, 2012, the Issuer had total savings balances of £5.4 billion. The Issuer has diversified its funding base by offering to its customers new fixed rate savings products. The funding has been complemented by the issue of marketable bonds targeted at retail investors.

The Issuer has issued a £125 million seven and a half year term retail bond in February 2011, a £60 million eight year term retail bond in December 2011 and a £200 million eight and a half year term retail bond in May 2012. The Issuer intends to access the Bank of England's "Funding for Lending Scheme".

The Issuer maintains a liquid asset portfolio of high quality securities in line with regulatory guidance, and additional treasury assets which offer a high degree of liquidity. At 31st August, 2012 treasury assets totalled £1.985 billion. The Issuer had previously utilised the Bank of England's Special Liquidity Scheme by swapping AAA rated securities backed by credit card receivables and receiving UK Treasury Bills in return but has since returned all of its Special Liquidity Scheme Treasury Bills to the Bank of England ahead of schedule. The Issuer uses a range of liquidity risk metrics and provides liquidity returns to the FSA in accordance with the new reporting requirements. A contingency funding plan is in place and has been tested under stress scenarios.

Business Trends

Within the context of a challenging economic climate, the Issuer continues to trade successfully within a difficult retail financial services market. Bad debts have continued decreasing and the Issuer believes that they have now stabilised below industry average. The bad debt asset ratio decreased from 2.6 per cent. during the six months to 31st August, 2011 to 1.8 per cent. during the six months to 31st August, 2012. Significant investment in new systems and employee growth has increased the cost base in line with the Issuer's strategy to deliver new banking systems and infrastructure in order to support the growth of the business.

The Issuer's parent company, Tesco, increased its investment in the Issuer by £45,000,000 during the six months to 31st August, 2012. This investment funded planned expenditure on systems development and infrastructure together with a strengthening of the Issuer's capital position.

To allow the Issuer to manage the sales and service of its motor and home insurance business, two new customer service centres in Glasgow and Newcastle were opened in October 2010. These also support the Issuer's savings and loans business.

Business Strategy

The Issuer intends to increase its participation within the United Kingdom financial services market in order to grow from an offeror of popular financial service products into a full service retail bank which maximises its existing relationship with its customers by supplying them with innovative services and products which are focussed on offering them more choice, greater value and lower complexity through a familiar sales environment so affording the Issuer with the benefit of a greater share of consumer spending in the United Kingdom on retail financial services and products.

The Issuer is making strong progress in pursuit of its strategic objectives. The Issuer has already completed (i) the development and embedding of its own banking systems and infrastructure and (ii) increasing the range of the services and products that it offers to its customers by launching mortgages. The next significant product that the Issuer intends to pursue will be cash ISAs. This will be followed by the offering of personal current accounts to its customers. The current account customer proposition is well advanced and development of the system infrastructure for delivery of this service is underway.

Administrative, Management and Supervisory Bodies

Board of Directors of the Issuer

As at the date of this Offering Circular, the Directors of the Issuer, the business address of each of whom is Interpoint Building, 22 Haymarket Yards, Edinburgh EH12 5BH, and their functions and principal activities outside the Issuer, where these are significant with respect to the Issuer, are as follows:

<u>Name</u>	<u>Principal activities outside the Issuer</u>
Graham Pimlott <i>Chairman</i>	Non-Executive Chairman of Tesco Personal Finance Group Limited Non-Executive Chairman of Grosvenor Limited Non-Executive Director of Grosvenor UK Finance plc Director of Graham Pimlott Limited
Benny Higgins <i>Chief Executive</i>	Executive Director of Tesco Personal Finance Group Limited Director of Scottish Financial Enterprise Member of the Scottish Government's Financial Services Advisory Board Member of Treasury Financial Inclusion Taskforce Member of Glasgow Economic Leadership Board
Iain Clink <i>Deputy Chief Executive</i>	Executive Director of Tesco Personal Finance Compare Limited Executive Director of Tesco Personal Finance Group Limited Executive Director of Tesco CTF Nominees Limited
Rick Hunkin <i>Chief Risk Officer</i>	Executive Director of Tesco Personal Finance Group Limited Executive Director of Tesco CTF Nominees Limited
Peter Bole <i>Chief Financial Officer</i>	Executive Director of Tesco Personal Finance Compare Limited Executive Director of Tesco Personal Finance Group Limited Director of Tesco Underwriting Limited
Adrian Hill <i>Independent Non-Executive Director</i>	Non-Executive Director of Tesco Personal Finance Group Limited Director of: British Credit Trust Collections Ltd British Credit Trust Conduit Ltd British Credit Trust Finance Ltd British Credit Trust Holdings Ltd British Credit Trust Ltd British Credit Trust Management Ltd Consumer Finance Acquisitions Co Ltd Swiftarrow Services Ltd BCT Funding Ltd BCT Motor Finance 1 Ltd BCT Motor Finance 2 Ltd Metis Bidco Limited Davies Group Limited Davies Holdings Limited Farradane Limited Opportunity Microfinance Investments Limited Bayv Investments Limited Bayv Investments (EBT) Limited Opportunity International United Kingdom Stirring Stuff Limited

<u>Name</u>	<u>Principal activities outside the Issuer</u>
Gareth Bullock <i>Non-Executive Director</i>	Non-Executive Director of Tesco plc Non-Executive Director of Tesco Personal Finance Group Limited Senior Independent Director of Spirax Sarco Engineering PLC Non-Executive Director of Global Market Group Limited Member of Advisory Council of G3 Good Governance Group Partner of Lambton Investment Fund Limited
Stuart Chambers <i>Non-Executive Director</i>	Non-Executive Director of Tesco plc Non-Executive Director of Tesco Personal Finance Group Limited Non-Executive Chairman of Rexam Plc Non-Executive Director of Manchester Airport Group plc
Deanna Oppenheimer <i>Non-Executive Director</i>	Non-Executive Director of Tesco plc Non-Executive Director of Tesco Personal Finance Group Limited Non-Executive Director NCR Corporation Trustee of University of Puget Sound, Tacoma Advisory Member of Brooks Sports Inc Advisory Member of Finsphere
Ray Pierce <i>Independent Non-Executive Director</i>	Non-Executive Director of: Tesco Personal Finance Group Limited Director of: Succession Advisory Services Limited National Motor Museum Trading Ltd National Motor Museum Trust Ltd New Quay Holdings Ltd New Quay Ltd Quay Dynamics Ltd Puma High Income VCT plc Paragroup Ltd Paragroup Management Ltd Parasol Ltd Parasol Management Ltd Purely Accounting (Holdings) Services Ltd Tesco Underwriting Limited
John Reed <i>Independent Non-Executive Director</i>	Non-Executive Director of: Tesco Personal Finance Group Limited Bank of the Philippine Islands (Europe) plc VDC Trading Limited Arbuthnot Latham & Co Limited Innovation Finance Limited Director of: National Motor Museum Trust Limited Silverback (UK) Limited Extreme 4x4 Limited Chairman of Equilibrium 4 Limited
Paul Hewitt <i>Independent Non-Executive Director</i>	Non Executive Director of Tesco Personal Finance Group Limited Chairman of OB10 Ltd Chairman of The Good Care Group London Ltd Chairman of Four Times Enterprises Ltd Chairman of Shop Direct Financial Services Ltd Chairman of RJ Kiln & Co Ltd Trustee of National Employment Savings Trust

Except as described in the next paragraph, none of the Directors of the Issuer have any actual or potential conflict between their duties to the Issuer and their private interests or other duties as listed above.

Gareth Bullock's interest in Tesco plc; Stuart Chambers's interest in Tesco plc; Adrian Hill's interest in Metis Bidco Limited, Davies Group Limited and Davies Holdings Limited; Deanna Oppenheimer's interest in Tesco plc and NCR Corporation; Ray Pierce's interest in Paragroup Ltd, Paragroup Management Ltd, Parasol Ltd,

Parasol Management Ltd, Puma High Income VCT plc and Tesco Underwriting Limited; and Graham Pimlott's consultancy arrangement with Stephen Warrington of Diamond Advisory Services Ltd are all principal activities relating to entities with which the Issuer has or may have a business relationship and, as a result, each such Director may have a potential conflict of interest between his or her duty to the Issuer and his or her duty to the respective entity in which he or she has a private interest. For example, a potential conflict of interest could arise if such Director is called upon to vote in relation to a transaction between the Issuer and a company of which he or she is a Director.

The Board of Directors monitors potential and actual conflicts of interest and has processes to deal with them. Directors of the Issuer are required to disclose potential and actual conflicts of interest to the Board and the Board addresses potential and actual conflicts in accordance with legal requirements.

As a matter of English law, each Director of the Issuer is under a duty to act honestly and in good faith with regard to the best interests of the Issuer, regardless of any other private interests such Director may have.

Board Practices

As a wholly owned subsidiary of TPF Group Limited, which is a wholly owned subsidiary of Tesco, the Issuer is required to meet the standards of internal corporate governance required for all subsidiaries in the Tesco Group, as modified to reflect the fact that the Issuer is regulated by the FSA.

Board

The Board has overall responsibility for the management of the business and acts as the main decision making forum for the Issuer. It sets the strategic aims for the business, within a framework of prudent and effective controls, which enables risk to be assessed and managed.

The Board is responsible for approval of the Issuer's business plans; approval of the Internal Capital Adequacy Assessment Programme (ICAAP); Internal Liquidity Adequacy Assessment (ILAA); approval of Risk Appetite; approval of Treating Customers Fairly policy; approval and oversight of the risk and control policies of the Issuer; and approval of any material new product lines.

The Board monitors the Issuer's risk management profile and capital adequacy position.

The Board has appointed independent Non-Executive Directors who provide insight and challenge to the Issuer's plans and performance.

Executive Committee

The Issuer has delegated the day to day running of the business to the Chief Executive of the Issuer, who chairs the Executive Committee (**ExCo**). ExCo is supported in the running of the business by a series of sub-committees (each of which support specific areas of the business). The processes and structures through which ExCo exercises its executive powers are contained in the Issuer's Executive Governance Manual.

The role of the ExCo is to provide executive management of the business and facilitate cross-functional communication and liaison. The ExCo makes key decisions on running the business, but it does delegate to relevant sub-committees and specific senior managers day to day responsibility for management of business areas. Each member of ExCo is responsible to the Chief Executive, and through him to the Board of the Issuer, for managing the performance of the business in line with the Issuer's long term plan, strategy, annual budget and risk appetite.

Audit Committee

The role of the Issuer's Audit Committee is to review the Issuer's financial statements and to monitor the Issuer's accounting policies and practices for compliance with relevant accounting, legal and regulatory standards. The Audit Committee reviews arrangements in place to enable management to ensure that the Issuer complies with requirements and standards under applicable regulations. The Audit Committee oversees the internal audit function and the external audit and assurance programmes, as well as managing the relationship with the Issuer's external auditor, PricewaterhouseCoopers LLP.

The Audit Committee meets a minimum of four times per year, with additional ad-hoc meetings scheduled as required. The Audit Committee operates under delegated authority from the Issuer's Board of Directors.

Risk Committee

The Board Risk Committee seeks to align overall business strategy with, and monitor high level performance against, the Board's risk appetite. The Board Risk Committee seeks to identify and monitor the control of risks and to satisfy itself that policies and processes are in place to control identified risks. A forward-looking approach is taken to the prediction of possible economic trends and risks, informed by analysis of appropriate information, and the consideration of potential impacts on the business. The Board Risk Committee seeks to encourage the embedding of a supportive risk culture so that all employees are alert to the wider impact on the whole organisation of their actions and decisions.

Remuneration Committee

The role of the Remuneration Committee is to determine and approve remuneration arrangements for staff subject to the Issuer's Remuneration Code and to approve a remuneration framework for employees below the leadership level. The Remuneration Committee seeks to ensure that the levels and structures of remuneration are designed to attract, retain, and motivate the management talent needed to run the business of Tesco Bank in a way which is consistent with the risk appetite and ongoing sustainability of the business and to be compliant with all applicable legislation and guidelines. The Remuneration Committee also ensures that such remuneration arrangements are appropriate, do not drive or reward inappropriate short term behaviours and comply with the FSA's Remuneration Code.

Risk Management Committee

The Risk Management Committee (the **RMC**) is a sub-committee of the ExCo and its role is to ensure that there is effective management and control of all key risks and issues facing the Issuer. The RMC is supported in discharging its duties by the Fraud, Operational and Regulatory Risk Committee and the Credit Risk Management Committee.

Asset & Liability Management Committee

The Asset & Liability Management Committee (the **ALCo**) is a sub-committee of the ExCo and its principal role is to optimise the Issuer's balance sheet structure and to identify, manage and control the Issuer's balance sheet risks in the execution of its chosen business strategy. The ALCo is supported in its role by a sub-committee, the Liquidity Management Forum.

Related Party Transactions

There are no transactions to which the Issuer is a party which are material to the Issuer, or to the Issuer's knowledge which were not made in the ordinary course of business, or that are unusual in their nature or conditions.

Regulation

Overview of United Kingdom Regulation

The cornerstone of the regulatory regime in the United Kingdom is the Financial Services and Markets Act 2000 (**FSMA**) which came into force on 1st December, 2001. The FSA has responsibility under the FSMA for the regulation and oversight of a wide range of financial services activities in the United Kingdom. The FSA is responsible for the authorisation and supervision of institutions that perform regulated activities as defined in the FSMA. As part of its authorisation process, the FSA reviews applicants to ensure that they satisfy the necessary criteria, including suitability, competence and financial soundness, to engage in regulated activity.

These responsibilities include the regulation of deposit-taking, mortgage lending, sales and administration (October 2004) and general insurance sales and administration (January 2005). More recently, on 1st November, 2009, responsibility for the regulation of banking conduct of business and for payment services, under the Payment Services Regulations 2009, transferred to the FSA.

The Financial Services Act 2010 (the **FS Act**) received Royal Assent on 8th April, 2010. The FS Act established a new consumer financial education body, amended the FSMA to provide the FSA with a new financial stability statutory objective, gives the FSA powers to make rules on remuneration arrangements, short selling, living wills, consumer redress schemes, and extends its enforcement powers.

Significant changes to the United Kingdom regulatory regime have been announced and will see the tripartite regulatory system, consisting of the Bank of England, the FSA and the Treasury being replaced by a new regulatory structure with the Bank of England at the centre of the framework. The new structure will comprise (i) the Financial Policy Committee (FPC), a committee of the Bank of England and which will have responsibility for amongst other matters, monitoring and responding to systemic risks on a macro-prudential level; (ii) the Prudential Regulatory Authority (PRA), a subsidiary of the Bank of England and which will have responsibility for prudential regulation of deposit-taking institutions, insurers and certain investment banks and (iii) the Financial Conduct Authority (FCA), which will be a separate regulator responsible for regulating all conduct of business matters across the retail and wholesale and market sectors and be responsible for prudentially regulating firms which are not prudentially regulated by the PRA. Under the new structure the FSA will cease to exist.

An interim FPC has been established within the Bank of England and the FSA and Bank of England have begun the process of splitting out prudential regulation from conduct of business regulation within the FSA with a view to transitioning to the new structure.

In January 2012 the Government introduced the Financial Services Bill into parliament, which will implement the reforms to the current regulatory system in the United Kingdom. It is expected that the Bill will receive Royal Assent by the end of 2012 and come into force in early 2013.

Regulatory Approach of the FSA

As from 2nd April, 2012 the FSA began supervising firms under the new “twin peaks” model with banks (such as the Issuer), building societies, insurers and major investment firms having two groups of supervisors, one responsible for prudential supervision - the Prudential Business Unit (**PBU**) and the other for conduct supervision – the Conduct Business Unit (**CBU**). The FSA has stated in its 2012/2013 Business Plan that the new model will embed the forward-looking, pro-active, judgment based approach which is a key feature of the new regime and accelerate the move from the previous approach to regulation. The FSA has emphasised that it intends changing its supervisory approach from the “old style reactive approach” to the “new style proactive approach”. The supervisory focus will be on significant and material risks to each of the statutory objectives of the PRA and FCA and supervisors will challenge the underlying causes of problems in the financial sector rather than by only addressing the symptoms of such problems. The FSA has said that there will be a greater emphasis on performance of firms’ boards and senior management and an increased willingness by the regulator to intervene earlier and direct firms when poor performance is identified. The FSA’s regulatory approach aims to focus and reinforce the responsibility of senior management of a financial institution to ensure that it takes reasonable care to organise and control its affairs responsibly and effectively and that it develops and maintains adequate risk management systems. The FSA has indicated that it will move away from using the ARROW risk mitigation programme and the two supervisory units will run their own risk mitigation programmes and firms will have two sets of mitigating actions to address. The FSA has said that the PBU and CBU will develop and operate separate supervisory approaches reflecting their different philosophies and focus on different issues.

Overall the Government intends that the FCA will promote good outcomes for consumers, be more outward looking and engaged with consumers, set clear expectations for firms, intervene earlier to combat potential risks to consumers and market integrity before they crystallise and be tougher and bolder and build upon the FSA’s credible deterrence strategy and use its new powers of intervention and enforcement. The FCA will move from a “tick box” approach to a proactive judgement led approach with a main priority being intrusive regulation aiming to prevent problems arising before they occur. The FSA has emphasised that the FCA will be more forward-looking in its assessment of potential problems and sees its new powers of intervention as a means for achieving this objective. In addition, the FCA will have a specific objective to promote effective competition in financial services in the interests of consumers. The change in regulatory approach represents a significant change in conduct of business regulation and is likely to have a significant impact upon the manner in which the Issuer’s compliance with conduct of business requirements is regulated and supervised.

The FSA has indicated that prudential supervision will continue to focus on forward-looking assessment of the risk to its objectives, including its financial stability objective, and it will continue to require firms to have appropriate capital and liquidity and have strong governance and systems and controls. The FSA will seek to reduce the impact of any potential failure of a firm through its work with firms on their recovery and resolution plans. The FS Act gives the FSA a financial stability information gathering power which applies to authorised and unauthorised persons and is aimed at assisting the FSA in identifying threats to financial

stability. In its Financial Stability and Market Confidence Sourcebook, the FSA states that, when deciding whether to impose a financial stability information requirement, factors it will take into account include: (i) the nature and extent of the risks to financial stability; (ii) whether the information is readily available from another source; and (iii) whether the information may assist the FSA in fulfilling its functions.

The Bank of England has set out the high-level approach of the PRA to banking supervision, which is judgment based approach and which will have a number of elements, including (i) focusing on the “big picture” and understanding where the main risks to the stability of the financial system lie; (ii) being forward-looking, seeking to assess whether, on the balance of risks, there are vulnerabilities in a firm’s business model, capital and liquidity positions, risk management and controls that cast doubt into its future financial soundness and (iii) where supervisory risks are identified, taking action at an early stage to reduce the probability of disorderly failure. The change in regulatory approach represents a significant change in prudential supervision and may have a significant impact upon the manner in which the Issuer is regulated and supervised.

A draft Memorandum of Understanding between the PRA and FCA was published in January 2012 which sets out a high-level framework for the how the two organizations will cooperate and coordinate their activities in the new regime.

A risk based approach for the supervision of all financial institutions is adopted by the FSA and the starting point for the FSA’s supervision is based on a systematic analysis of an institution’s risk profile. Having determined the level of inherent risk, a minimum capital adequacy requirement is established, which the institution is required to meet at all times.

The FSA carries out its supervision of United Kingdom financial institutions through the collection of information from a series of prudential returns covering sterling and non-sterling operations, on-site reviews (currently through its ARROW reviews and through industry wide thematic reviews), desk based reviews, meetings with senior management and reports obtained from skilled persons. With the move to the ‘twin peaks’ model the PBU and CBU have as expected for major retail institutions such as the Issuer, continued with each having a dedicated relationship team who coordinates much of this activity via its “Close and Continuous” supervision regime.

Thematic reviews continue as well as regular prudential reports required by the FSA. These include operating statements and returns covering (amongst other things) capital adequacy, liquidity, large single exposures and large exposures to related borrowers. Capital adequacy returns of the Issuer are submitted on a periodic basis. Regular non prudential reports required by the FSA include complaints data, daily transaction reporting returns and product sales data.

The FSA has indicated that following the implementation of the new regulatory regime, the FSA Handbook will be divided in two – with prudential rules being set out in a new handbook and conduct of business rules in another. Currently, the FSA Handbook sets out rules and guidance across the full range of issues with which financial institutions are required to comply. These include, amongst other things:

- Principles for Businesses — 11 high level principles to which financial institutions are required to adhere.
- Authorisation requirements — these are standards that need to be met in order to be authorised and continue to be met on an ongoing basis.
- Prudential rules — these relate to capital adequacy and liquidity.
- Systems and controls requirements that are appropriate to the volume and complexity of activity undertaken.
- Conduct of Business rules that set out the requirements for aspects such as advising and selling, product disclosure, financial promotions (including compliance with the requirement that such promotions should be clear, fair and not misleading), responsible lending and default.
- Reporting Requirements — these set out periodic reporting requirements and event driven notifications that must be submitted to the FSA.
- Training and Competence rules — these are standards that apply to firms providing, amongst other services, advice to retail customers.
- Code of Market Conduct — this provides further rules and guidance on the market abuse offences set out in the FSMA.

Other Bodies Impacting the Regulatory Regime

The Bank of England and HM Treasury

Prior to the implementation of the new regulatory structure in the United Kingdom, the agreed framework for co operation in the field of financial stability in the financial markets is set out in detail in the Memorandum of Understanding published jointly by HM Treasury, the FSA and the Bank of England at the end of October 1997 and updated in March 2006. The Bank of England has specific responsibilities in relation to financial stability, including: (i) ensuring the stability of the monetary system; oversight of the financial system infrastructure, in particular payments systems at home and abroad; and maintaining a broad overview of the financial system through its monetary stability role and the deputy governor's membership of the FSA's Board. HM Treasury, the FSA and the Bank of England (collectively the **tri partite**) work together to achieve stability in the financial markets.

As part of the transition to the new regulatory structure in the United Kingdom, an interim Financial Policy Committee has been established within the Bank of England.

United Kingdom Government

The United Kingdom Government is responsible for the overall structure of financial regulation and the legislation which governs it. It has no operational responsibility for the activities of the FSA or the Bank of England. However, there are a variety of circumstances where the FSA and the Bank of England will need to alert HM Treasury (the representative of the United Kingdom Government) about possible problems, for example, where there may be a need for a support operation or a problem arises which could cause wider economic disruption.

The 2009 Act provides the FSA, Bank of England and HM Treasury with tools for dealing with failing institutions as part of the special resolution regime (the **SRR**). These powers are designed to enable the Authorities to deal with and stabilise United Kingdom incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA (each a **relevant entity**) that are failing or are likely to fail to satisfy certain threshold conditions (within the meaning of section 41 of the FSMA, being the conditions that a relevant authority must satisfy in order to retain its authorisation to perform regulated activities).

The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. Pursuant to a recent proposal issued by the United Kingdom Government, the powers mentioned in (i) and (ii) would be extended to the parent company of a relevant entity provided that certain conditions are met. Whilst the proposals have yet to be finalised, the Government has indicated that it intends to limit the use of these powers to financial groups, being a group where the business of the holding company, or its subsidiaries, is primarily financial services. The Government has said that it also only intends for this power to be used over group companies within the lowest level of the group.

If a deposit-taking institution or its parent undertaking is taken into temporary public ownership, HM Treasury may take various actions in relation to any securities issued by it without the consent of the holders thereof (**Investors**), including (among other things):

- transferring securities free from any restrictions on transfer and free from any trust, liability or encumbrance;
- delisting the securities;
- converting securities into another form or class; or
- prescribing that the transfer of shares takes place free from any trust.

Accordingly, the taking of any such actions could adversely affect the rights of Investors, the price or value of their investment, and the ability of such parent undertaking to satisfy its obligations under the issued securities or the related contracts.

Where the stabilisation powers are exercised, HM Treasury must make statutory provision for a scheme or other arrangements for determining the compensation, if any, due to those affected by an exercise of the powers. However, there can be no assurance that Investors would thereby recover compensation promptly and equal to any loss actually incurred.

United Kingdom Financial Ombudsman Service (FOS)

The FOS was established on 1st December, 2001 pursuant to the FSMA to provide customers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from the regulated firm. The FOS resolves disputes that cover most financial products and services provided in (or from) the United Kingdom, from insurance and pension plans to bank accounts and investments, for eligible complainants, private individuals and small businesses, charities or trusts. The jurisdiction of FOS was extended in 2007 to include firms conducting activities under the Consumer Credit Act. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable; in this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on firms.

Financial Services Compensation Scheme

In the United Kingdom, the Financial Services Compensation Scheme (**FSCS**) was established under the FSMA and is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including the Issuer.

Lending Standards Board

The Lending Standards Board (formerly the Banking Code Standards Board) is responsible for monitoring and enforcing compliance with the Lending Code introduced on 1st November, 2009 which relates to lending to private customers and small businesses. The Lending Code was updated in March 2011 and reinforces the requirements for lenders to act fairly and reasonably when dealing with consumers.

United Kingdom Office of Fair Trading (OFT)

The OFT is the United Kingdom consumer and competition authority. Its regulatory and enforcement powers impact the banking sector in a number of ways. Among other functions, the OFT is responsible for the licensing and supervision of businesses which provide credit to consumers, reviewing proposed mergers, conducting market studies and ensuring compliance with competition and consumer law. The Issuer has a consumer credit licence issued by the OFT. The Government has included in the Financial Services Bill provisions enabling the transfer of responsibility for the regulation of consumer credit from the OFT to the FCA. If implemented this may result in a significant change in the way in which consumer credit businesses are licensed and regulated in the United Kingdom. It is difficult to state with any certainty at this stage whether regulatory responsibility for all consumer credit businesses will be transferred to the FCA and the form such regulation will take.

United Kingdom Information Commissioner's Office

This office is responsible for overseeing implementation of the Data Protection Act 1998. This Act regulates, among other things, the retention and use of data relating to individual customers.

The Freedom of Information Act 2000 (the **FOIA**) sets out a scheme under which any person can obtain information held by, or on behalf of, a "public authority" without needing to justify the request. A public authority will not be required to disclose information if certain exemptions set out in the FOIA apply.

Independent Commission on Banking

The Independent Commission on Banking (**ICB**) was established by the United Kingdom Government in June 2010 to examine the banking sector and to make recommendations on structural and related non-structural measures to promote stability and competition in the banking sector. The ICB published its final report in September 2011. In response thereto, the United Kingdom Government published a white paper on banking reform closely based upon the recommendations of the ICB – see further "*Legal and Regulatory risks*" on page 27 of this Offering Circular.

EU Regulation

The United Kingdom has implemented all of the directives introduced under the Financial Services Action Plan which was intended to create a single market for financial services across the EU. However, these directives are regularly reviewed at EU level and could be subject to change. The Issuer will continue to monitor the progress of these initiatives and assess the likely impact on its business.

EU directives, which are required to be implemented in EU Member States through national legislation, have a strong influence over the framework for supervision and regulation of financial services in the United Kingdom. The directives aim to harmonise financial services regulation and supervision throughout the EU by setting standards in key areas such as capital adequacy, access to financial markets, consumer protection and compensation schemes.

Financial institutions, such as the Issuer, are primarily regulated in their home state by a local regulator but the EU directives prescribe criteria for the authorisation of such institutions and the prudential conduct of business supervision applicable to them. A new system of financial supervision has been implemented in the EU with the establishment of a new European Systemic Risk Board and three sectoral authorities: the European Banking Authority, European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority. Whilst regulation and supervision of individual institutions is primarily by the local regulator in the institution's home state, these new authorities have been given far reaching powers which may in certain circumstances enable them to take action directly against an individual institution, such as the Issuer.

Other International Regulation

The Issuer has limited exposure to jurisdictions outside the United Kingdom and is subject to minimal reporting requirements and controls imposed by the relevant central banks and regulatory authorities.

In view of the global financial crisis and the increased scrutiny financial regulators have come under, it is also expected that regulatory regimes in many jurisdictions will be significantly tightened. At a G20 meeting to tackle the financial crisis in November 2008, a set of common principles for the reform of financial markets was set out. These principles have been endorsed at subsequent G20 meetings and have the aim of strengthening transparency and accountability; enhancing sound regulation; promoting integrity in financial markets; re enforcing international co operation and reforming international institutions.

Current Regulatory Themes

Regulatory themes which have a current bearing on the business of the Issuer include, but are not limited to, the following:

Liquidity Regime

On 5th October, 2009 the FSA published its new liquidity rules which significantly broaden the scope of the existing liquidity regime and are designed to enhance regulated firms' liquidity risk management practices and, in part, can be seen as a response to issues highlighted by the credit crisis. These new rules, which apply to a wider range of entities than the current liquidity regime, are based on the over arching principle of regulated firms (their subsidiaries and branch offices) being self sufficient and having adequate liquid resources to withstand particular liquidity stresses. The rules specify that this will be delivered through greatly enhanced systems and controls requirements and a regular and comprehensive liquidity risk assessment of the business which will be linked to the supervisory process and monitored through more granular and frequent reporting on the part of regulated firms. In particular, the rules have introduced enhanced quantification requirements which will ultimately require regulated firms to hold a greater quantity of higher quality liquid assets as a buffer against liquidity stresses. It is noted that the specific rules vary depending on the type of regulated firm and some regulated firms may be able to benefit from particular relaxations.

The new systems and controls requirements apply to most regulated firms from 1st December, 2009 and the enhanced quantitative requirements were introduced in stages over the period 1st June to 1st November, 2010.

The new requirements apply to the Issuer and the Issuer has established its present business model, the systems that it has in place and the present basis of its reporting to meet the requirements.

Basel II

Basel II has been implemented throughout the EU through the Capital Requirements Directive. This came into force for all European banks on 1st January 2007. With effect from 19th December, 2008, the Issuer has adopted the standardised approach to the calculation of regulatory capital requirements for both credit risk and operational risk.

Basel III

The proposals of the Basel Committee on Banking Supervision, known as 'Basel III', include increased minimum levels of, and quality standards for, capital, increased risk weighting of assets and the introduction of a minimum leverage ratio and capital buffers. The new requirements will be implemented in stages from 1st January, 2013, with a final implementation of the Basel III proposals by 1st January, 2019. Certain elements of the new standards remain subject to further work and agreement. Basel III is being implemented in the European Union by means of CRD IV.

CRD

CRD II (a legislative instrument containing amendments to the European Union Capital Requirements Directive) was implemented on 1st January, 2011 and strengthened requirements for non-Core Tier 1 Capital. Capital instruments not satisfying the new European requirements may be grandfathered on a limited basis. CRD III (a legislative instrument containing amendments to the European Union Capital Requirements Directive) provided for further requirements including strengthening capital requirements in the trading book, higher capital requirements for re-securitisations and extending the prudent valuation framework. CRD IV (which will implement the Basel III requirements) is expected to be finalised during the course of 2012. It is expected that the new requirements will be implemented on a phased basis from 2013 – 2018.

Solvency II

Solvency II, a fundamental review of the capital adequacy regime of the European insurance industry, aims to establish a set of EU-wide capital requirements where the required regulatory capital will depend on the risk profile of the entities, together with risk management standards, that will replace the Solvency I requirements. Solvency II is still in development, but there is a risk that the final regime could increase the amount of regulatory capital which the Issuer is required to hold as a result of its profit sharing arrangement with RBS and its joint venture with Ageas, thus decreasing the amount of capital available for other uses.

Retail Banking Investigation

On 10th January, 2007, the European Commission published the Final Report of its sector inquiry into European retail banking markets covering payment cards and (non card) payment systems and current accounts and related services. The European Commission found that markets were fragmented along national lines, limiting consumer choice and leading to higher costs for current accounts, loans or payments.

High degrees of variation of prices, profit margins and selling patterns between EU Member States and high degrees of homogeneity within EU Member States were found to be indicative of persisting regulatory or behavioural barriers to competition.

The Final Report identified competition concerns in several areas of retail banking, including:

- the combination of sustained high profitability, high market concentration and evidence of entry barriers in some Member States raise concerns about banks' ability to influence the level of prices for consumers and small firms;
- large variations in merchant and interchange fees between banks across the EU may indicate competition barriers;
- the existence of high joining fees for payment cards, co branding, surcharging and the practice of "blending" card fees where a retailer is charged the same merchant fee irrespective of the different costs of card types;
- some credit registers, holding confidential data that lenders use to set loan rates, may be used to exclude new entrants to retail banking markets;
- some aspects of co operation among banks, including savings and co operative banks, can reduce competition and deter market entry;
- product tying by banks is widespread in Member States and can reduce consumer choice and increase banks' power in the market place to influence prices; and

- obstacles to customer mobility in banking, notably the inconvenience of changing a current account, are high.

The Final Report also listed the following specific areas where enforcement action by the European Commission and the national competition authorities is appropriate:

- high interchange fees and merchant fees in some payment card networks;
- access barriers and discriminatory rules in relation to credit registers;
- tying of products by some banks; and
- bank co operation (in respect to which the European Commission indicated that it intended to gather more information before acting).

Potential Legal Actions

The Issuer may at any point in time in the future be subject to threatened or actual legal proceedings and regulatory change both in the United Kingdom and overseas. Any such material cases would be periodically reassessed to determine the likelihood of the Issuer incurring a liability. There are currently significant market wide inflationary pressures on claims for compensation made by claimants who claim they were wrongly sold payment protection insurance (**PPI**) sold in conjunction with retail financial service products. The calculation of the provision for customer redress involves estimating a number of variables including the volume of cases in which compensation is paid and the amount of such compensation and is based on the level of complaints received to date. Uncertainty inherent in estimating the volume of cases in which compensation is payable and/or the amount payable, which includes those cases where the Issuer may be required to contact customers as a result of historic sales practices, may have a significant impact on the ultimate cost of compensation. In the six months to 31st August, 2012, the Group has experienced an increase in the volume of complaints related to historic PPI sales which are in the main driven by the activities of third party claims management companies. This increase in volume has been experienced across the industry and has resulted in a number of institutions making adjustments to the value of provisions held. In addition, the Group has undertaken a second pilot exercise which has provided additional data upon which to base provision assumptions. As a result of both of these factors, the Group decided to further increase the value of the existing provision by £30 million towards the end of the first half of the year. The total provision balance as at 31st August, 2012 was £78,154,000.

Clearing and Settlement

Notes

The Issuer may make applications to Clearstream, Luxembourg and/or Euroclear for acceptance in their respective book-entry systems in respect of any Series of Notes. A temporary global Note and/or a permanent global Note without coupons may be deposited with a common depository or common safekeeper, as the case may be, for Clearstream, Luxembourg and/or Euroclear or an alternative clearing system as agreed between the Issuer and Dealer. Transfers of interests in such temporary global Notes or permanent global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Clearstream, Luxembourg and Euroclear or, if appropriate, the alternative clearing system. Each global Note deposited with a common depository or common safekeeper, as the case may be, on behalf of Euroclear and Clearstream, Luxembourg will have an ISIN and a Common Code.

CREST Depository Interests

If so specified in the applicable Final Terms, following the delivery of an issue of Notes into Euroclear and/or Clearstream, Luxembourg (the **Relevant Clearing Systems** and each a **Relevant Clearing System**), investors may also hold interests in the Notes through Euroclear UK & Ireland Limited (formerly known as CREST Co Limited) (**CREST**) through the issuance of dematerialised depository interests (**CREST Depository Interests** or **CDIs**) issued, held, settled and transferred through CREST, representing interests in the relevant Notes underlying the CDIs (the **Underlying Notes**). CREST Depository Interests are independent securities distinct from the Notes, constituted under, and governed by, English law and transferred through CREST and will be issued by CREST Depository Limited (the **CREST Depository**) pursuant to the global deed poll dated 25th June, 2001 (as subsequently modified, supplemented and/or restated) (the **CREST Deed Poll**).

The CDIs will represent indirect interests in the interest of CREST International Nominees Limited (the **CREST Nominee**) in the Underlying Notes. Pursuant to the CREST Manual (as defined below), Notes held in global form by the common depository or common safekeeper may be settled through CREST, and the CREST Depository will issue CDIs. The CDIs will be independent securities distinct from the Notes, constituted under English law, and may be held and transferred through CREST.

Interests in the Underlying Notes will be credited to the CREST Nominee's account with a Relevant Clearing System and the CREST Nominee will hold such interests as nominee for the CREST Depository which will issue CDIs to the relevant CREST participants.

Each CDI will be treated by the CREST Depository as if it were one Underlying Note, for the purposes of determining all rights and obligations and all amounts payable in respect thereof. The CREST Depository will pass on to holders of CDIs (**CDI Holders**) any interest or other amounts received by it as holder of the Underlying Notes on trust for such CDI Holders. CDI Holders will also be able to receive from the CREST Depository notices of meetings of holders of Underlying Notes and other relevant notices issued by the relevant Issuer.

Transfers of interests in Underlying Notes by a CREST participant to a participant of a Relevant Clearing System will be effected by cancellation of the corresponding CDIs and transfer of an interest in such Underlying Notes to the account of the relevant participant with a Relevant Clearing System.

The CDIs will have the same ISIN as the ISIN of the Underlying Notes and will not require a separate listing on the Official List.

Prospective subscribers for Notes represented by CDIs are referred to Section 3 (Crest International Manual) of the CREST Manual issued by Euroclear UK & Ireland (including the CREST International Manual dated 14 April 2008) as amended, modified, varied or supplemented from time to time (the **CREST Manual**) which contains the form of the CREST Deed Poll to be entered into by the CREST Depository. The rights of the CDI Holders will be governed by the arrangements between CREST, the Relevant Clearing Systems and the relevant Issuer including the CREST Deed Poll (in the form contained in Section 3 of the CREST Manual) executed by the CREST Depository. These rights may be different from those of holders of Notes which are not represented by CDIs.

If issued, CDIs will be delivered, held and settled in CREST, by means of the CREST International Settlement Links Service (the **CREST International Settlement Links Service**). The settlement of the CDIs by means of the CREST International Settlement Links Service has the following consequences for CDI Holders:

- (a) CDI Holders will not be the legal owners of the Underlying Notes. The CDIs are separate legal instruments from the Underlying Notes to which they relate and represent an indirect interest in such Underlying Notes.
- (b) The Underlying Notes themselves (as distinct from the CDIs representing indirect interests in such Underlying Notes) will be held in an account with a custodian. The custodian will hold the Underlying Notes through a Relevant Clearing System. Rights in the Underlying Notes will be held through custodial and depositary links through the appropriate Relevant Clearing Systems. The legal title to the Underlying Notes or to interests in the Underlying Notes will depend on the rules of the Relevant Clearing System in or through which the Underlying Notes are held.
- (c) Rights under the Underlying Notes cannot be enforced by CDI Holders except indirectly through the intermediary depositaries and custodians described above. The enforcement of rights under the Underlying Notes will therefore be subject to the local law of the relevant intermediary. The rights of CDI Holders to the Underlying Notes are represented by the entitlements against the CREST Depository which (through the CREST Nominee) holds interests in the Underlying Notes. This could result in an elimination or reduction in the payments that otherwise would have been made in respect of the Underlying Notes in the event of any insolvency or liquidation of the relevant intermediary, in particular where the Underlying Notes held in Relevant Clearing Systems are not held in special purpose accounts and are fungible with other securities held in the same accounts on behalf of other customers of the relevant intermediaries.
- (d) The CDIs issued to CDI Holders will be constituted and issued pursuant to the CREST Deed Poll. CDI Holders will be bound by all provisions of the CREST Deed Poll and by all provisions of or prescribed pursuant to the CREST Manual and the CREST Rules (the **CREST Rules**) (contained in the CREST Manual) applicable to the CREST International Settlement Links Service and CDI Holders must comply in full with all obligations imposed on them by such provisions.
- (e) Potential investors should note that the provisions of the CREST Deed Poll, the CREST Manual and the CREST Rules contain indemnities, warranties, representations and undertakings to be given by CDI Holders and limitations on the liability of the issuer of the CDIs, the CREST Depository.
- (f) CDI Holders may incur liabilities resulting from a breach of any such indemnities, warranties, representations and undertakings in excess of the money invested by them. The attention of potential investors is drawn to the terms of the CREST Deed Poll, the CREST Manual and the CREST Rules, copies of which are available from the CREST website (at 31st October, 2012, being at www.euroclear.com/site/public/EUI).
- (g) Potential investors should note that CDI Holders may be required to pay fees, charges, costs and expenses to the CREST Depository in connection with the use of the CREST International Settlement Links Service. These will include the fees and expenses charged by the CREST Depository in respect of the provision of services by it under the CREST Deed Poll and any taxes, duties, charges, costs or expenses which may be or become payable in connection with the holding of the Notes through the CREST International Settlement Links Service.
- (h) Potential investors should note that none of the Issuer, the relevant Dealer, the Trustee and the Paying Agents will have any responsibility for the performance by any intermediaries or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.
- (i) Potential investors should note that Notes represented upon issue by a temporary global Note exchangeable for a permanent global Note will not be immediately eligible for CREST settlement as CDIs. In such case, investors investing in the Underlying Notes through CDIs will only receive the CDIs after such temporary global Note is exchanged for a permanent global Note, which could take up to 40 days after the issue of the Notes. It is anticipated that Notes eligible for CREST settlement as CDIs will be issued initially in the form of a permanent global Note.

Taxation

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and HM Revenue & Customs (HMRC) published practice in the United Kingdom relating only to United Kingdom withholding tax treatment of payments of interest in respect of Notes. It is general in nature and does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who are or may be unsure as to their tax position should seek their own professional advice.

Payment of Interest on the Notes

The Issuer, provided that it continues to be a bank within the meaning of section 991 of the Income Tax Act 2007, and provided that the interest on the Notes is paid in the ordinary course of its business within the meaning of section 878 of the Income Tax Act 2007, will be entitled to make payments of interest without withholding or deduction for or on account of United Kingdom income tax.

Payments of interest on the Notes may also be made without deduction or withholding for or on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognised stock exchange", as defined in section 1005 Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes are and remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom income tax where interest on the Notes is paid by a company and, at the time the payment is made, that company reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest or falls within various categories enjoying a special tax status (including specified pension funds) or are partnerships consisting of such persons, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom income tax where the maturity of the Notes is less than 365 days after issue and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days. HMRC issued a consultation document on 27th March, 2012 entitled "Possible changes to income tax rules on interest", in which the United Kingdom Government has invited views on repealing this exemption from the obligation to withhold or deduct for or on account of United Kingdom income tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. HMRC also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of another person, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of amounts payable on the redemption

of deeply discounted securities where such amounts are paid on or before 5th April, 2013. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

RPI-Linked Notes

Noteholders should note that RPI-Linked Notes with a redemption value linked to the retail prices index may constitute “deeply discounted securities” for the purposes of Chapter 8 of Part 4 Income Tax (Trading and Other Income) Act 2005. In those circumstances, profits arising on disposal (including redemption or transfer) of the Notes by a Noteholder who is within the charge to United Kingdom income tax in respect of the Notes will generally be taxable as income with no account being taken of any costs incurred on the acquisition or disposal of the Notes.

Other Notes issued under the Programme (including in particular Zero Coupon Notes) may also constitute “deeply discounted securities” or Noteholders may otherwise be subject to United Kingdom income tax on profits arising on disposal.

Irish Taxation

The following is a summary of the principal Irish tax consequences of ownership of the Notes for individuals who are resident and ordinarily resident in Ireland for tax purposes and for companies that are resident in Ireland for tax purposes. It is based on the laws and practice of the Revenue Commissioners currently in force in Ireland and may be subject to change. The statements in this summary are based on the understanding that the Notes will be treated as debt for Irish tax purposes. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, including dealers in securities and trusts. The summary does not constitute tax or legal advice and the comments below are of a general nature only and it does not discuss all aspects of Irish taxation that may be relevant to any particular holder of Notes (including, but not limited to, social insurance and the Universal Social Charge (USC)). Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of payments thereon under any laws applicable to them.

Taxation of Noteholders

Withholding Tax

Tax at the standard rate of income tax (currently 20 per cent.), is required to be withheld from payments of Irish source interest. The Issuer will not be obliged to withhold Irish income tax from payments of interest on the Notes so long as such payments do not constitute Irish source income. Interest paid on the Notes should not be treated as having an Irish source unless:

- (a) the Issuer is resident in Ireland for tax purposes; or
- (b) the Issuer has a branch or permanent establishment in Ireland, the assets or income of which is used to fund the payments on the Notes; or
- (c) the Issuer is not resident in Ireland for tax purposes but the Notes are physically held in Ireland.

It is anticipated that, (i) the Issuer is not and will not be resident in Ireland for tax purposes; (ii) the Issuer will not have a branch or permanent establishment in Ireland; and (iii) that Notes will not be physically located in Ireland.

Taxation of Receipts

Notwithstanding that a Noteholder may receive payments of interest, premium or discount on the Notes free of Irish withholding tax, the Noteholder may still be liable to pay Irish income tax (currently up to 41 per cent. and in the case of individuals, the USC) or corporation tax (generally at the rate of 25 per cent.) on such interest and/or any payment in the nature of interest if (i) such interest has an Irish source, (ii) the Noteholder is resident or (in the case of a person other than a body corporate) ordinarily resident in Ireland

for tax purposes (in which case there would also be a social insurance (PRSI) liability for an individual in receipt of interest on the Notes), or (iii) the Notes are attributed to a branch or agency in Ireland.

Ireland operates a self-assessment system in respect of income and corporation tax, and each person must assess its own liability to Irish tax.

Relief from Irish tax may also be available under the specific provisions of a double taxation agreement between Ireland and the country of residence of the recipient.

Encashment Tax

In certain circumstances, Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from any interest paid on Notes issued by a company not resident in Ireland, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder who is Irish resident. Encashment tax does not apply where the Noteholder is not resident in Ireland and has made a declaration in the prescribed form to the encashment agent or bank.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such Noteholder is either resident or ordinarily resident in Ireland and or carries on a trade or business in Ireland through a permanent establishment, branch or agency in respect of which the Notes are or were held. A Noteholder who is resident or ordinarily resident in Ireland or carries on such a trade in Ireland may be liable to capital gains tax in Ireland on a disposal of the Notes. Capital gains tax is currently levied at 30 per cent. in Ireland.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will not be within the charge to Irish capital acquisitions tax (which, subject to available exemptions and reliefs, is currently levied at 30 per cent.) unless either (i) the donor or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland; or (ii) the Notes are regarded as property situate in Ireland. Notes are generally regarded as situated where they are physically located. A foreign domiciled individual will not be regarded as being resident or ordinarily resident in Ireland at the date of the gift or inheritance unless that individual (i) has been resident in Ireland for the five consecutive tax years preceding that date, and (ii) is either resident or ordinarily resident in Ireland on that date.

Stamp Duty On Transfer Of Notes

No stamp duty, capital duty or similar tax is imposed in Ireland on the issue, transfer or redemption of the Notes unless (i) the Notes are regarded as property situate in Ireland; or (ii) a document of transfer of the Notes is executed in Ireland; or (iii) the transfer relates to Irish property or to any matter or thing done or to be done in Ireland. Even if any one of the territoriality provisions listed at (i), (ii) or (iii) above were applicable, an exemption may be applicable under the provisions of Irish stamp duty legislation on the transfer of loan capital.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State of the European Union (each a **Member State**) is required to provide to the tax authorities of any other Member State details of payments of interest (or similar income), which for this purpose may include payments on redemption of the Notes representing any discount on issue or premium payable on redemption, paid by a person within its jurisdiction to or for the benefit of, or collected by such person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Subscription and Sale

The Dealers have, in an amended and restated dealer agreement dated 31st October, 2012 (as modified and/or supplemented and/or restated from time to time, the **Dealer Agreement**) agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes" above. In the Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding paragraph and in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Notes, which are in bearer form, are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether the TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each EEA State which has implemented the Prospectus Directive (each a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (c) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
 - (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,
- provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- (i) the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;
- (ii) the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and
- (iii) the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan pursuant to an exemption from the registration requirements of and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

France

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) *Offer to the public in France*: it has only made and will only make an offer of Notes to the public in France in the period beginning (i) when a prospectus in relation to those Notes has been approved by the *Autorité des Marchés financiers (AMF)*, on the date of such publication or, (ii) when a prospectus has been approved by the competent authority of another Member State of the European Economic Area which has implemented the EU Prospectus Directive No. 2003/71/EC, on the date of notification of such approval to the AMF, and ending at the latest on the date which is 12 months after the date of approval of the Offering Circular, all in accordance with Articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF; or

- (ii) *Private placement in France*: it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Offering Circular the relevant final terms or any other offering material relating to the Notes, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) other than individuals all as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 and D.411-4 of the French *Code monétaire et financier*.

Jersey

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that there shall be no circulation in Jersey of any offer for subscription, sale or exchange of any Notes unless such offer is circulated in Jersey by a person or persons authorised to conduct investment business under the Financial Services (Jersey) Law 1998, as amended and (a) such offer does not for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, constitute an offer to the public; or (b) an identical offer is for the time being circulated in the United Kingdom without contravening the FSMA and is, *mutatis mutandis*, circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom.

Isle of Man

Each Dealer has represented and agreed, and each further Dealer under the Programme will be required to represent and agree, that any offer for subscription, sale or exchange of the Notes within the Isle of Man shall be made by (i) an Isle of Man financial services licenceholder licensed under section 7 of the Financial Services Act 2008 to do so or (ii) in accordance with any relevant exclusion contained within the Regulated Activities Order 2011 or exemption contained in the Financial Services (Exemptions) Regulations 2011.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

General Information

Authorisation

The update of the Programme and the issue of Notes thereunder have been duly authorised by resolutions of the Board of Directors of the Issuer dated 5th September, 2012 and a sub-committee of the Board of Directors dated 24th October, 2012.

Listing of Notes on the Official List

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a temporary global Note initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. Such application is expected to be granted on or around 6th November, 2012.

Clearing Systems

The Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Clearstream, Luxembourg and Euroclear will be specified in the applicable Final Terms. If the Notes are to be cleared through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

If so specified in the applicable Final Terms, interests in the Notes may also be held through CREST through the issuance of CDIs representing Underlying Notes. The address of CREST is Euroclear UK & Ireland, 33 Cannon Street, London EC4M 5SB.

Conditions for Determining Price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Yield

The yield for any particular Series of Notes will be specified in the applicable Final Terms and will be calculated on the basis of the compound annual rate of return if the relevant Notes were to be purchased at the Issue Price on the Issue Date and held to maturity. Set out below is an example formula for the purposes of calculating the yield of Fixed Rate Notes or Zero Coupon Notes. The Final Terms in respect of any Floating Rate Notes will not include any indication of yield.

$$\text{Issue Price} = \text{Rate of Interest} * \frac{1 - \left(\frac{1}{(1 + \text{Yield})^n} \right)}{\text{Yield}} + \left[\text{Final Redemption Amount} * \frac{1}{(1 + \text{Yield})^n} \right]$$

Where:

"Rate of Interest" means the Rate of Interest expressed as a percentage as specified in the applicable Final Terms and adjusted according to the frequency (and in the case of Zero Coupon Notes, means "0") i.e. for a semi-annual paying Note, the rate of interest is half the stated annualised rate of interest in the Final Terms;

“Yield” means the yield to maturity calculated on a frequency commensurate with the frequency of interest payments as specified in the applicable Final Terms (and in the case of Zero Coupon Notes, means Accrual Yield as specified in the applicable Final Terms); and

“n” means the number of interest payments to maturity.

Set out below is a worked example illustrating how the yield on a Series of Fixed Rate Notes could be calculated on the basis of the above formula. It is provided for purposes of illustration only and should not be taken as an indication or prediction of the yield for any Series of Notes; it is intended merely to illustrate the way which the above formula could be applied.

Where:

N = 6

Rate of Interest = 3.875%

Issue Price = 99.392%

Final Redemption Amount = 100%

$$99.392 = 3.875 \left[\frac{1 - \left(\frac{1}{(1+Yield)^6} \right)}{Yield} \right] + \left[100 * \frac{1}{(1+Yield)^6} \right]$$

Yield = 3.99% (calculated by iteration)

The yield specified in the applicable Final Terms in respect of a Series of Notes will not be an indication of future yield.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the Group since 31st August, 2012 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 29th February, 2012.

Governmental, Legal and Arbitration Proceedings

Other than the possibility of claims relating to the historical sales of PPI made by the Issuer, as set out on page 26 of this Offering Circular, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position or profitability of the Issuer or the Group.

Third Party Information

Information included in this Offering Circular and attributed to GfK NOP has been accurately reproduced from relevant reports provided by GfK NOP and as far as the Issuer is aware and is able to ascertain from information published by GfK NOP, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Auditors

The financial statements of the Issuer have been audited without qualification for the financial years ended 29th February, 2012 and 28th February, 2011 by PricewaterhouseCoopers LLP, chartered accountants and registered auditors (a member of the Institute of Chartered Accountants in England and Wales), of PO Box 90, Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH. PricewaterhouseCoopers LLP have no material interest in the Issuer.

Trust Deed

The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors (as defined in the Trust Deed) and/or any other expert in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and the Auditors or such other expert in connection therewith contains any limit on the liability (monetary or otherwise) of the Auditors or such other expert.

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published (if applicable), be available from the registered office of the Issuer and from the specified office of the Paying Agents:

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the auditors' report and the audited consolidated and non-consolidated financial statements of the Issuer for the financial period ended 29th February, 2012;
- (iii) the auditors' report and the audited non-consolidated financial statements of the Issuer for the financial period ended 28th February, 2011;
- (iv) the most recently published audited consolidated and non-consolidated annual financial statements of the Issuer and the most recently published consolidated and non-consolidated interim financial reports (if any) of the Issuer, in each case together with any audit or review reports prepared in connection therewith;
- (v) the Dealer Agreement, and the Schedule of Forms (containing the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Notes, the Coupons and the Talons);
- (vi) this Offering Circular;
- (vii) any future offering circulars, prospectuses or information memoranda in respect of the Notes and any supplements thereto including any Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market in an EEA State nor offered to the public in an EEA State in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent as to its holding and identity) and any other documents incorporated herein or therein by reference;
- (viii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document); and
- (ix) the GfK NOP Financial Research Survey (FRS) referred to in this Offering Circular.

In addition, this Offering Circular and the documents incorporated by reference herein are available, and each Final Terms relating to Notes which are admitted to trading on the London Stock Exchange's regulated market and/or offered in the United Kingdom in circumstances where a prospectus is required to be published under the Prospectus Directive will be available, on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.

Post-issuance Information

Unless otherwise specified in the applicable Final Terms, the Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers Transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

RPI-Linked Notes

RPI is one of the most familiar general purpose domestic measures of inflation in the U.K. RPI has been used as a measure of inflation since 1947 and measures the average change from month to month in the prices of goods and services purchased by most households in the U.K. The spending pattern on which the RPI is based is revised each year, mainly using information from official expenditure and food surveys.

RPI is compiled by the U.K. Office of National Statistics (**ONS**) using a large and representative selection of separate goods and services for which price movements are regularly measured in various areas throughout the UK. If prices rise compared to the previous month, the RPI goes up and if prices fall compared to the previous month, the RPI goes down. It takes two or three weeks for the ONS to compile the index, so each month's RPI figure is published during the following month, (e.g. the figure relating to July will be published in August). The RPI figures used in the calculation of interest payments on the RPI-Linked Interest Notes and the redemption amount of the RPI-Linked Redemption Notes are numerical representations of where prices on a list of items bought by an average family stand at a point in time, in relation to their past values.

More information on RPI, including past and current levels, can be found at the following website: www.statistics.gov.uk.

Payments of principal on RPI-Linked Redemption Notes and interest on RPI-Linked Interest Notes will be adjusted to take into account changes in RPI from the Base Index Figure specified in the applicable Final Terms.

In respect of each Tranche of RPI-Linked Interest Notes, the real rate of interest will be specified in the applicable Final Terms. The interest amount due on each interest payment date (such dates to be specified in the applicable Final Terms) will be multiplied by the ratio which reflects the change in RPI between the Base Index Figure and the RPI figure relating to a particular month or date (as specified in the applicable Final Terms) prior to the relevant interest payment date.

Subject to any early redemption of RPI-Linked Redemption Notes, such RPI-Linked Redemption Notes will be redeemed on their specified maturity date at a final redemption amount specified in the applicable Final Terms, provided that:

- (i) if the RPI figure applicable to the relevant month or date, as the case may be, in or on which such payment falls to be made is higher than the Base Index Figure, an additional amount reflecting such increase in RPI will also be paid (subject to any maximum redemption amount specified in the applicable Final Terms); and
- (ii) if the RPI figure applicable to the relevant month or date, as the case may be, in or on which such payment falls to be made is lower than the Base Index Figure, the amount payable on redemption of the RPI-Linked Redemption Notes will be reduced to reflect such decrease in RPI (subject to any minimum redemption amount specified in the applicable Final Terms).

Interest

Set out below is a worked example illustrating how payments of interest in relation to a Series of RPI-Linked Interest Notes might be calculated. The real rate of interest offered on a Series of RPI-Linked Interest Notes (i.e. the rate before taking inflation into account) is fixed when the first Tranche of such Series of RPI-Linked Interest Notes is issued (the **Rate of Interest** in the example below). For the purposes of the example below, this Rate of Interest is 1 per cent. (before any adjustments for inflation). This amount will be adjusted upwards or downwards to take into account the effect of inflation or deflation as indicated below. In the example below, the Issuer will pay interest in two half-yearly instalments until the RPI-Linked Interest Notes mature, which is why the rate of interest in the example below is being divided by 2. In the example below, the interest amount due on each interest payment date will be adjusted to take into account a change in inflation. To calculate any inflation adjustment that might apply, two inflation index "fixing" figures are required – one that relates to the start of the RPI-Linked Interest Note's life (i.e. the **Base Index Figure**) and one that relates to the relevant interest payment date. In the example below, both the Base Index Figure and the RPI figure that relates to any relevant interest payment date are taken 8 months prior to the issue date and the relevant interest payment date respectively (such 8 month period being referred to as the **RPI Lag Period**), but this Relevant Period can be lengthened or shortened for any given issuance of RPI-Linked Interest Notes as will be specified in the applicable Final Terms. In the example below, the interest amount due on each interest payment date will be adjusted to take into account the effect of inflation between the Base Index Figure relating to January 2012 (which is 8 months prior to the issue date of the first Tranche of the Series of RPI-Linked Interest Notes in the example below, i.e. September 2012,

and the figure for which is 238.0) and the RPI figure relating to the 8th month prior to the relevant interest payment date, and is calculated as follows:

$$\left(\text{Calculation Amount of the relevant Notes} \times \frac{\text{Rate of Interest}}{2} \times \frac{\text{RPI relating to the month 8 months prior to the interest payment date}}{\text{Base RPI of 238.0}} \right)$$

Interest amounts are calculated with reference to each Calculation Amount as set out in the applicable Final Terms.

As an example, if an investor owns £2,000 face value of RPI-Linked Interest Notes issued in September 2012 for which the Rate of Interest is 1 per cent. and the Calculation Amount is £100, the interest amount per Calculation Amount each investor will receive on the first interest payment date in March 2013 will be:

$$\begin{aligned} & \text{£100} \times \frac{1\%}{2} \times \frac{\text{RPI relating to July 2012}}{\text{Base RPI of 238.0}} \\ & = \text{£100} \times 0.50\% \times \frac{242.1}{238.0} = \text{£0.51} \end{aligned}$$

As the face value of RPI-Linked Interest Notes held by the investor in this example is equal to the Calculation Amount multiplied by 20, the actual amount this investor will receive on the first interest payment date in March 2013 will be £0.51 x 20 = £10.20.

Redemption

Set out below is a worked example illustrating how repayment of principal in relation to a Series of RPI-Linked Redemption Notes might be calculated. The RPI-Linked Redemption Notes will be redeemed either (i) on their specified maturity date as specified in the applicable Final Terms at the final redemption amount specified in the applicable Final Terms (in this example, at 100 per cent. of the nominal amount), or (ii) in certain limited circumstances described in the Terms and Conditions of the RPI-Linked Redemption Notes (see, for example, Condition 7(c) on page 75 of this Offering Circular) upon expiry of the notice required by the Terms and Conditions, at 100 per cent. of their nominal amount, in the case of each of (i) and (ii) above, plus or minus an additional amount to take into account the effect of inflation or deflation. To calculate any inflation adjustment that might apply, two inflation index “fixing” figures are required – one that relates to the start of the RPI-Linked Redemption Note’s life (i.e. the **Base Index Figure**) and one that relates to the relevant maturity date or early redemption date, as applicable, of the RPI-Linked Redemption Notes. In the example below, both the Base Index Figure and the RPI figure that relates to the relevant redemption date used in the example below are taken 8 months prior to the issue date and the example redemption date respectively (such 8 month period being referred to as the **RPI Lag Period**), but this Relevant Period can be lengthened or shortened for any given issuance of RPI-Linked Redemption Notes as will be specified in the applicable Final Terms. In the example below, the final amount due on the redemption of the RPI-Linked Redemption Notes will be adjusted to take into account the effect of inflation between the Base Index Figure relating to January 2012 (which is 8 months prior to the issue date of the first Tranche of the Series of RPI-Linked Redemption Notes in the example below, i.e. September 2012, and the figure for which is 238.0) and a hypothetical RPI figure of 253.8 relating to April 2019, being the 8th month prior to the relevant redemption date (which redemption date, in the example below, is to fall in December 2019) and is calculated as follows:

Where the final redemption amount of any RPI-Linked Redemption Note is specified in the applicable Final Terms as being 100 per cent. of the nominal amount of the Notes, the amount payable to an investor on the redemption of any such Note will be:

$$\text{Calculation Amount of the relevant Notes} \times \frac{\text{RPI relating to April 2019}}{\text{Base Redemption RPI}}$$

The amount so payable to an investor is calculated with reference to each Calculation Amount as set out in the applicable Final Terms.

As an example, if an investor owns £2,000 face value of the RPI-Linked Redemption Notes issued in September 2012 and the Calculation Amount is £100, the amount per Calculation Amount each investor will receive on redemption of the Notes in December 2019 will be:

$$£100 \times \frac{\text{RPI relating to April 2019 of 253.8}}{\text{Base Redemption RPI of 238.0}} = £106.64$$

As the face value of RPI-Linked Redemption Notes held by the investor in this example is equal to the Calculation Amount multiplied by 20, the actual amount this investor will receive on redemption of the Notes in December 2019 will be £106.64 x 20 = £2,132.80.

In this example, the final redemption amount of the RPI-Linked Redemption Notes is not subject to a maximum or minimum redemption amount as may be specified for any given issue of RPI-Linked Redemption Notes in the applicable Final Terms.

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