PROSPECTUS dated 12 April 2013

Scottish Widows plc

(incorporated in Scotland with limited liability with registered number SC199549)

£650,000,000

7.00 per cent. Subordinated Notes due 2043

Issue Price: 98.479 per cent.

The £650,000,000 7.00 per cent. Subordinated Notes due 2043 (the "**Notes**") to be issued on a subordinated basis will be issued by Scottish Widows plc (the "**Issuer**" and, together with its consolidated subsidiaries, the "**Group**") on or about 16 April 2013 (the "**Issue Date**"). The Notes will bear interest from (and including) the Issue Date. Interest will be payable on the Notes annually in arrear on each Interest Payment Date, save for a short first coupon payable on the first Interest Payment Date of 16 June 2013, provided that the Issuer may defer payments of interest on any Optional Interest Payment Date and must defer payments of interest (i) on any Mandatory Interest Deferral Date and/or (ii) if such payment could not be made in compliance with the Solvency Condition. Any interest which is deferred will, for so long as it remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will not themselves bear interest and will be payable as provided in Condition 5(e).

Subject to the following proviso, the Notes will (unless previously redeemed or purchased and cancelled) mature on 16 June 2043 (the "**Maturity Date**"), and may be redeemed at the option of the Issuer prior to the Maturity Date (i) following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or (ii) in the event of certain changes in the tax treatment applicable to the Notes, provided that redemption of the Notes on the Maturity Date or any other date set for redemption of the Notes shall be deferred if (a) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing on such date or would occur if the Notes were to be redeemed, or (b) the Notes could not be redeemed in compliance with the Solvency Condition. The Issuer may, alternatively, following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or in the event of certain changes in the tax treatment applicable to the Notes, vary or substitute the Notes in the circumstances described in Condition 7. Any substitution or variation of the Notes, and any redemption or purchase of the Notes prior to the Maturity Date, will be subject to satisfaction of the Regulatory Clearance Condition and continued compliance with applicable Regulatory Capital Requirements as published by the Prudential Regulation Authority (or any successor authority, the "**PRA**"), all as more particularly described in Condition 7(g).

Applications have been made to the Financial Conduct Authority (the "**FCA**") under Part VI of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") for the Notes 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 the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Potential investors should read the whole of this document, in particular the "Risk Factors" set out on pages 6 to 45.

The Issuer also intends to issue £850,000,000 5.50 per cent. Subordinated Notes due 2023 substantially contemporaneously with the Issue Date.

The Notes are expected to be rated BBB+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Baa2 by Moody's Investors Service Limited ("**Moody's**") and BBB+ by Fitch Ratings Ltd. ("**Fitch**"). S&P, Moody's and Fitch are each credit rating agencies established in the European Union and registered under Regulation (EC) No 1060/2009 and each of them is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. A 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.

Joint Bookrunners & Joint Lead Managers

Barclays **BofA Merrill Lynch**

Goldman Sachs International **Lloyds Bank**

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC, as amended, (the "**Prospectus Directive**").

The Issuer (the "**Responsible Person**") accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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 the Managers (as described under "*Subscription and Sale*" below) or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. No Manager or the Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer, the Managers or the Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Managers or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, any of the Managers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the offering of the 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 Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Managers or the Trustee to any person to subscribe for or to purchase any Notes in any jurisdiction where such offer or invitation is not permitted by law.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances 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 offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*" below.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor should (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement; (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency; (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Such instruments may be considered by investors who are in a position to be able to satisfy themselves that the Notes would constitute an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the 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 Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Managers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that the 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, no action has been taken by the Issuer, the Managers or the Trustee which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus 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. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the United Kingdom, see "*Subscription and Sale*".

IN CONNECTION WITH THE ISSUE OF THE NOTES, LLOYDS TSB BANK PLC AS STABILISING MANAGER (THE "**STABILISING MANAGER**") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) 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 (OR PERSONS ACTING ON BEHALF OF THE 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 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 NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS

ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to "**sterling**" and "**£**" refer to the currency of the United Kingdom and references to "**euro**" 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.

FORWARD-LOOKING STATEMENTS

This document contains certain "forward-looking statements". Statements that are not historical facts, including statements about the Issuer's and/or their respective directors' and/or management's beliefs and expectations are forward-looking statements. Words such as "believes", "anticipates", "estimates", "expects", "intends", "plans", "aims", " potential", " will", " would", "could", "considered", "likely", "estimate" and variations of these words and similar future or conditional expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon future circumstances that may or may not occur, many of which are beyond the Group's control and all of which are based on the Group's current beliefs and expectations about future events. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Issuer or the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer and the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this document. Except as required by the FCA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law or regulation, the Issuer expressly disclaims any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited consolidated financial statements of the Issuer for the financial years ended 31 December 2011 and 31 December 2012, respectively, together in each case with the audit report thereon, which have been previously published and which have been filed with the FCA (or its predecessor, the Financial Services Authority (the "**FSA**")).

Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein 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 a part of this Prospectus.

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

In accordance with International Financial Reporting Standards as adopted by the European Union, the financial statements of the Issuer include the results of acquired businesses from the date of acquisition only and include the results of disposed businesses up to the date of disposal only. On 1 July 2011, the Issuer acquired the entire share capital of Clerical Medical Investment Group Limited ("**CMIG**") from a fellow subsidiary of Lloyds Banking Group plc ("**LBG**"). Accordingly, each of (i) the Issuer's audited consolidated financial statements for the year ended 31 December 2011 and (ii) the 2011 comparative column as set out in the audited consolidated financial statements for the year ended 31 December 2012, as incorporated by reference into this Prospectus, reflect the financial year 2011 results of operations and cash flows of CMIG and its subsidiaries for the period from 1 July 2011 to 31 December 2011 only.

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OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

*The following overview refers to certain provisions of the terms and conditions of the Notes and the Trust Deed and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms which are defined in "Terms and Conditions of the Notes" have the same meaning when used in this overview. References to numbered Conditions are to the terms and conditions of the Notes (the "**Conditions**") as set out under "Terms and Conditions of the Notes".*

Issuer	Scottish Widows plc.
Joint Bookrunners and Joint Lead Managers	Barclays Bank PLC. Goldman Sachs International. Lloyds TSB Bank plc. Merrill Lynch International.
Trustee	The Law Debenture Trust Corporation p.l.c.
Issue	£650,000,000 7.00 per cent. Subordinated Notes due 2043.
Issue Date	16 April 2013.
Maturity Date	16 June 2043.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under "*Risk Factors*".
Status and Subordination	The Notes constitute unsecured, subordinated obligations of the Issuer, and will rank *pari passu* without any preference among themselves. The rights and claims of the Noteholders against the Issuer are subordinated in a winding-up of the Issuer as described in Condition 3(b). In addition, all payments under or arising from the Notes and the Trust Deed shall be conditional upon the Issuer being solvent (as that term is described in Condition 3(c)) at the time for payment by the Issuer, and no amount shall be payable by the Issuer under or arising from the Notes and the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter.
Interest	The Notes will bear interest on their principal amount from (and including) the Issue Date at a fixed rate of 7.00 per cent. per annum payable (subject as provided under "*Deferral of interest*" below) annually in arrear on 16 June in each year, save for a short first coupon payable on the first Interest Payment Date of 16 June 2013.
Deferral of interest	The Issuer may, on any Optional Interest Payment Date (as that term is defined in Condition 20, elect to defer payments of

interest on the Notes.

The Issuer is required to defer any payment of interest on the Notes (i) on each Mandatory Interest Deferral Date (being an Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing) or (ii) if such payment could not be made in compliance with the Solvency Condition.

Arrears of Interest

Any interest which is deferred by the Issuer will, for so long as it remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest, and will be payable by the Issuer as provided in Condition 5(e).

Redemption at maturity

Unless previously redeemed or purchased and cancelled, the Issuer will (subject as provided under "*Deferral of redemption*" below) redeem the Notes on the Maturity Date.

Early redemption

The Notes are not redeemable at the option of any Noteholder.

Redemption, substitution or variation upon a relevant tax law change

If:

(a) as a result of a change in, or amendment to, certain tax laws or regulations or the official interpretation thereof, on the next Interest Payment Date, (i) the Issuer would be required to pay additional amounts on the Notes as provided in Condition 8; or (ii) the payment of interest would be treated as a "distribution" for United Kingdom tax purposes; or (iii) in respect of the payment of interest, the Issuer would not to any material extent be entitled to have any attributable loss or non-trading deficit set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist); and

(b) the effect of the foregoing cannot be avoided by the Issuer by taking reasonable measures available to it,

the Issuer may, in accordance with Condition 7(d), upon notice to Noteholders either:

(A) redeem all the Notes (but not some only) at any time at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption (subject as provided under "*Deferral of redemption*" below); or

(B) substitute at any time all the Notes (but not some only) for, or vary the terms of the Notes so that they become or remain, Qualifying Dated Tier 2 Securities,

all as more particularly described in Condition 7(d).

Redemption, Substitution or Variation

If a Capital Disqualification Event has occurred and is

upon a Capital Disqualification Event	continuing, or the Issuer satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official interpretation of, any applicable law, regulation or other official publication, the same will occur within a period of six months, the Issuer may upon notice to Noteholders either: (a) redeem all the Notes (but not some only) at any time at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or (b) substitute at any time all the Notes (but not some only) for, or vary the terms of the Notes so that they become or remain, Qualifying Dated Tier 2 Securities, all as more particularly described in Condition 7(e).
Deferral of redemption	No Notes shall be redeemed by the Issuer on the Maturity Date or on any other date set for redemption pursuant to Conditions 7(d) or 7(e) if (i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were to be redeemed, or (ii) such redemption could not be made in compliance with the Solvency Condition. If redemption of the Notes is deferred, the Issuer will redeem the Notes as provided in Condition 7(b).
Regulatory approval for early redemption, variation, substitution or purchase	Prior to publishing any notice (a) of the Issuer's intention to redeem the Notes before the Maturity Date or (b) of any proposed substitution, variation or purchase of the Notes, the Issuer will be required to have complied with the Regulatory Clearance Condition with respect to such redemption, variation, substitution or purchase and be in continued compliance with Regulatory Capital Requirements as published by the PRA.
Withholding tax and additional amounts	The Issuer will pay such additional amounts as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding or deduction for, or on account of, any taxes required by law in the United Kingdom upon payments made by or on behalf of the Issuer in respect of the Notes, will equal the amount which would have been received in the absence of any such withholding or deduction, subject to customary exceptions as set out in Condition 8.
Events of Default	If default is made by the Issuer for a period of 14 days or more in the payment of any interest due in respect of the Notes or any of them or 7 days or more in the payment of principal due in respect of the Notes or any of them, or a Winding-Up occurs, the Trustee on behalf of the Noteholders may (and, subject to certain conditions, if so directed by the requisite majority of Noteholders shall) institute proceedings for the winding-up of the Issuer, and/or (as applicable) prove in the winding-up or

administration of the Issuer, but may take no further action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed.

Upon the occurrence of a Winding-Up, the Trustee may (and, subject to certain conditions, if so directed by the requisite majority of the Noteholders shall) give notice to the Issuer that the Notes are, and they shall accordingly become, immediately due and payable by the Issuer at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest.

Substitution of obligor and transfer of business	The Conditions permit the Trustee to agree to the substitution in place of the Issuer of a Substitute Obligor in the circumstances described in Condition 13 without the consent of Noteholders.
Meetings of Noteholders	The Conditions 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.
Form	The Notes will be issued in registered form only and will be represented upon issue by a registered global certificate (the "**Global Certificate**") which will be registered in the name of a nominee for a common depositary for Clearstream Banking, *société anonyme* and Euroclear Bank SA/NV on or about 16 April 2013. Save in limited circumstances, Notes in definitive form will not be issued in exchange for interests in the Global Certificate.
Denomination	The Notes will be issued in denominations of £100,000 and higher integral multiples of £1,000.
Listing	Applications have been made to the FCA under Part VI of FSMA for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market.
Ratings	Issuer As at the date of this Prospectus, the Issuer is assigned an A rating and stable outlook by S&P, an A2 rating with a stable outlook by Moody's and an A rating with a stable outlook by Fitch. Notes The Notes have been rated BBB+ by S&P, Baa2 by Moody's and BBB+ by Fitch. S&P, Moody's and Fitch are each credit rating agencies established in the European Union and registered under Regulation (EC) No 1060/2009 and each of them is included in the list of credit rating agencies published by the European

	Securities and Markets Authority on its website in accordance with such Regulation. A 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.
Governing law	The Notes and the Trust Deed, and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed, will be governed by, and construed in accordance with, English law, save in respect of Condition 3(b) and 3(d) and corresponding provisions in the Trust Deed which will be governed by, and construed in accordance with, Scots law.
Use of proceeds	It is intended that the net proceeds of the issuance of the Notes will be used by the Issuer and/or made available to its parent companies to fund the repayment of subordinated intra-group debts owed to a banking subsidiary of the Issuer's ultimate parent company, Lloyds Banking Group plc. To the extent any net proceeds are not used to facilitate such actions in relation to capital, the remaining net proceeds will be applied for the general corporate purposes of the Group.
ISIN	XS0914791768
Common code	091479176
Selling restrictions	The United States of America and the United Kingdom.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. 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.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Business and Economic Risks

The business of the Group is subject to inherent risks arising from difficult conditions in the global capital markets as well as general and sector-specific economic conditions in the UK. Adverse developments in the UK could cause the Group's earnings and profitability to decline.

The Group's business is subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates; particularly in the UK, where the Group's earnings are predominantly generated.

The Group's results are materially affected by conditions in the global capital markets and the economy generally. The current economic climate in Western economies following the global financial crisis and subsequent sovereign debt crisis is likely to be characterised by a larger number of economic risks than one would expect in a normal cycle. This may lead to higher volatility in asset markets as a result, as the fragilities in the system are periodically tested by investors. Governments and central banks are working to engineer a recovery through their policy actions. Both investment and economic risks will be heightened by the interaction of fiscal and monetary policy, risking, at best, a further moderation in economic growth and, at worst, a return to recessionary conditions. In the shorter term, a globally loose monetary policy has created inflationary impulses and excess liquidity that is leading to asset price bubbles in a number of emerging markets. One of the other important side effects of this policy environment has been a rise in fixed income asset price volatility and, in a number of sovereign and credit markets, heightened, and in some cases extreme, credit risk being priced in. Domestic and international equity markets have also experienced volatility and disruption.

Such events and the continuing market upheavals may have an adverse effect on the Group, in part because the Group has a large investment portfolio and is dependent upon customer behaviour. This could lead to a decline in sales and profit margins could erode. In addition, the Group may experience a decline in the value of any assets which are exposed to European sovereign debt (though there is limited direct exposure). In addition, in the event of extreme prolonged adverse market conditions, such as the global credit crisis, the Group could incur significant losses in its investment portfolio.

Factors such as consumer spending, business investment, government spending, the volatility and strength of both debt and equity markets, and inflation all affect the business and economic environment and, ultimately, the volume and profitability of the Group's business. In an economic downturn characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products could be adversely affected. In addition, the Group may experience an elevated incidence of claims or surrenders of policies that could affect the current and future profitability of the business. A prolonged economic crisis could result in lower sales figures for the Group in the future. The Group's policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. These adverse changes in the economy could affect earnings negatively and could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is exposed to business and economic threats from the potential break up of the Euro-zone, including contagion impacts on the UK economy.

The Group is exposed to business and economic threats from the potential break up of the Euro-zone, including contagion impacts on the UK economy. A wide-scale break-up of the Euro-zone would most likely be associated with a significant deterioration in the economic and financial environment in the UK and Euro-zone that would materially affect the capital and the funding position of participants in the insurance industry, including the Group. This could also give rise to operational disruptions to the Group's business.

The effects on the European and global economy of the potential break up of the Euro-zone, the exit of one or more European Union member states from the Euro-zone or the redenomination of financial instruments from the euro to a different currency, are impossible to predict and protect against fully in view of (i) economic and financial instability in the Euro-zone, (ii) the severity of the recent global financial crisis, (iii) difficulties in predicting whether any recovery will be sustained and at what rate, and (iv) the fact that many of the risks related to the business are totally, or in part, outside the control of the Group. However, if any such events were to occur they would likely: (a) result in significant market dislocation; (b) heighten counterparty risk; (c) adversely affect the management of market risk and, in particular, asset and liability management due, in part, to redenomination of financial assets and liabilities; and (d) have a material adverse effect on the financial condition, results of operations and prospects of the Group. Even if countries do not leave the Euro-zone, the current recessionary environment in such countries may have an adverse effect on the Group's business carried out in, or with counterparties based in, such countries. Any adverse changes affecting the economies of the countries in which the Group has significant exposures, and any further deterioration in global economic conditions, could have a material adverse impact on the Group's operating results, financial condition and prospects.

The Group's businesses are conducted in highly competitive environments and the Group's financial performance depends upon management's ability to respond effectively to competitive pressures.

The markets for UK financial services, including the long term life assurance, pensions and investment products markets are highly competitive, and management expects such competition to intensify in response to competitor behaviour, consumer demand, technological changes, and the impact of consolidation, regulatory actions and other factors. The Group's financial performance and its ability to capture additional market share and generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

The factors affecting the Group's ability to sell its products and deliver continued profitability include price and yields offered, financial strength and ratings, range of product lines and product quality, choice of distributor and distribution method, brand strength and name recognition, investment management performance, historical bonus levels, developing demographic trends and customer appetite for certain savings products. The Group may face competitors that are larger, have greater financial resources or a greater market share or offer a broader range of products.

Furthermore, heightened competition for talented and skilled employees may limit the Group's potential to grow its business as quickly as planned.

Fluctuations in the financial markets, including fixed income, equity, property and credit could affect the levels of regulatory capital that the Group must hold for regulatory solvency purposes, which could materially impact results of operations and shareholders' equity.

The value of investment assets fluctuates, which can impact the capital levels supporting the Group's business. All insurers are required to hold an excess amount of capital over a minimum solvency amount. The Group had a PRA Pillar I surplus of £3.7 billion as at 31 December 2011 and £3.9 billion as at 31 December 2012. The Group's policy is also to maintain an appropriate buffer over other measures of regulatory capital requirements at all times. An inability to meet regulatory capital requirements in the future would be likely to lead to intervention by the PRA (as successor to the FSA in the UK from April 2013 in relation to the prudential supervision of insurers), which could require the Group to restore regulatory capital to acceptable levels.

In addition, the Group is subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies, including the PRA, the FCA (being the successor to the FSA from April 2013 in relation to the conduct supervision of insurers) and other regulators. In light of financial conditions, some of these authorities are considering, or may in the future consider, enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. All of these possibilities, if they occurred, could affect the way the Group conducts business and manages capital, and may require the Group to satisfy increased capital requirements, any of which in turn could materially affect results of operations, financial condition and liquidity.

Governmental initiatives intended to alleviate the current financial crisis that have been adopted may not be effective and, in any event, are expected to be accompanied by other initiatives, including new capital requirements or other regulations, that could materially affect results of operations, financial condition and liquidity in ways that the Group cannot predict.

In response to the global financial crisis and subsequent sovereign debt crisis, legislation has been passed including bank stabilisation programmes by the government and Bank of England in the UK. This legislation or similar proposals, as well as accompanying actions, such as monetary or fiscal actions, of comparable authorities in the UK, Euro-zone and other countries, may not achieve their intended objectives and may have unintended consequences. This legislation and other proposals or actions may have other consequences, including material effects on interest rates and foreign exchange rates, which could materially affect investments, results of operations and liquidity in ways that cannot be predicted. The failure effectively to implement, or to withdraw as appropriate, proposals or actions could also increase constraints on the liquidity available in the banking system and financial markets and increase pressure on stock prices, fixed interest yields and exchange rates, any of which could materially and adversely affect the Group's results of operations, financial condition and liquidity. In the event of future material deterioration in business conditions, the Group may need to raise additional capital or consider other transactions to manage the Group's capital position or liquidity.

The Group is dependent on the strength of its brands, the brands of the Lloyds Banking Group and intermediaries and the Group's reputation with customers and agents in the sale of products and services.

The Group's success and results are, to a certain extent, dependent on the strength of the Group's brands and reputation as well as the brands and reputation of Lloyds Banking Group plc ("**LBG**") and its subsidiaries (the "**Lloyds Banking Group**") and other intermediaries, on whom the Group relies for the distribution of a significant proportion of its insurance products.

While the Group is well recognised, it is vulnerable to adverse market and customer perception. It operates in an industry where integrity, customer trust and confidence are paramount. The Group is exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information and inadequate services, amongst others, whether or not founded, could impact brands or reputation. Any of the Group's brands or the Group's reputation could also be affected if products or services recommended by the Group (or any intermediaries) do not perform as expected (whether or not the expectations are founded) or in line with the customers' expectations for the product range. In addition, negative publicity about the Lloyds Banking Group could have a negative effect on the Group.

The Group is dependent on distributor firms for the sale of new business.

A significant proportion of new business (particularly unit-linked corporate pensions) is derived from independent distributor firms over whom the Group has no direct influence. Effective distribution is dependent on meeting a number of competitive challenges.

In addition, in the UK the FSA (FCA from April 2013) has introduced new rules regarding financial advisory practices in the retail distribution market ("**RDR**") which came into force on 31 December 2012. This will have a significant impact on the provision of advice within the retail distribution market and may give rise to additional costs as business models adapt over time to the new rules.

There is a risk that the implementation of the RDR for retail advisory and distribution firms will lead to a decline in the number and/or size of retail distribution firms as financial advisers may decide to consolidate or to leave the sector as a response to the potential increase in costs of complying with the new practices and higher professional standards required by the FCA. If a reduction in the capacity of the intermediary distribution sector does occur, this may in turn lead to a reduction in the opportunities for the Group's products to be distributed by retail and financial advisory firms.

Market and Credit Risks

Changes in interest rates may reduce the value of the Group's investment portfolio, increase the burden of embedded options, guarantees and issued debt, impact asset and liability matching and cause customers to surrender their contracts, which could adversely affect the Group's results of operations and financial condition.

The Group is exposed to changes in the shape and level of yield curves and changes in correlation of interest rates between different financial instruments (basis risk). Insurance and investment contract liabilities exposed to interest rate risk principally comprise participating and Non Participating liabilities. Other financial liabilities subject to interest rate risk include derivative financial instruments, subordinated liabilities issued by the Group which are determined by a floating interest rate and other borrowings.

Due to the long-term nature of the liabilities associated with certain businesses, and guaranteed benefits on certain long-term insurance and fund management products, sustained declines in long-term interest rates may subject the Group to increased guarantee costs, reinvestment risks and increased hedging costs.

Certain of the Group's life insurance businesses may be exposed to the risk that policyholders may surrender their contracts, reducing the future profits for the Group. In other situations, declines in interest rates may result in increasing the duration of certain life insurance liabilities, creating potential asset liability duration mismatches, although this is mitigated by closely matching asset and liability cash flows where appropriate. The Group's investment portfolio also contains interest rate sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates from governmental monetary policies, domestic and international economic and political conditions and other factors beyond the Group's control. A rise in interest rates would increase unrealised losses or reduce unrealised gains in the investment portfolio, whilst improving the Group's ability to earn higher rates of return on funds reinvested. Conversely, a decline in interest rates would decrease unrealised losses or increase unrealised gains in the Group's investment portfolio, whilst lowering rates of return on funds reinvested.

As a result of the diversity of the products offered by the Group, the Group employs different methods of asset and liability management. It may not be possible to hold assets which will provide cash flows to exactly match those relating to policyholder liabilities. This is due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of suitable duration. This results in a residual asset/liability mismatch risk which can be managed but not eliminated. In addition, the estimate of the liability cash flow profile is subject to uncertainty and the Group may be forced to liquidate investments prior to maturity at a loss in order to cover the liability. See also "*Interest rate volatility may adversely affect the Group's profitability*".

Interest rate volatility may adversely affect the Group's profitability.

Because the Group's unit-linked and fund management business depends on fees related primarily to the value of assets under management, a rise in interest rates could reduce revenues by reducing the value of the investment assets the Group manages.

The options and guarantees embedded in the Group's With Profits Business could become more onerous due to falling interest rates (primarily in the UK). Therefore, there may be a requirement for Group support if hedges and management actions are not in place or become ineffective.

Some products, such as annuities, expose the Group to the risk that changes in interest rates will reduce the "spread", or the difference between the amounts that are required to be paid under the contracts and the rate of return the Group is able to earn on investments intended to support obligations under the contracts. The Group’s spread is a key component of its net income.

As interest rates decrease or remain at low levels, the Group may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, reducing the investment margin. Moreover, borrowers may prepay or redeem the fixed-income securities, commercial mortgages and mortgage-backed securities in the Group’s investment portfolio with greater frequency in order to borrow at lower market rates, which exacerbate this risk. Lowering bonus rates on with-profits policies can help manage the future build-up of liabilities. However, the ability to lower these rates could be limited by policyholder expectations, competition or contractually guaranteed minimum rates and may not match the timing or magnitude of changes in asset yields.

A widening in credit spreads could reduce the Group’s future profits.

Widening credit spreads may reduce the value of the Group’s investment portfolio, which could impact Group profitability in several ways.

Profits from fees taken on unit-linked funds and other third party assets invested in corporate bonds would fall when spreads widen, and the options and guarantees embedded in the With Profits Business could become more onerous and hence may require Group support. Other areas where widening credit spreads could impact the Group’s profitability are the valuation and matching of annuity and other long-term liabilities.

Market volatility can make it difficult to value certain securities if trading becomes less frequent. Accordingly, valuations of investments may include assumptions or estimates that may have significant period-to-period changes due to market conditions, which could have a material adverse effect on the Group’s consolidated results of operations or financial condition.

Falls in property prices could have an adverse impact on the Group’s investment portfolio and impact the results of operations and shareholders’ equity.

The Group is subject to property price risk due to holdings of investment properties in various funds. Profits from fees taken on unit-linked funds and other third party assets invested in property would fall when the value of underlying properties falls. To the extent that falls in property prices make options and guarantees embedded in with-profits contracts more onerous, Group support may be required for the Group’s With-Profit Funds.

The Group is also subject to some property risk indirectly through investments in mortgage-backed securities. There is the risk that the underlying collateral of the mortgage-backed securities may default on principal and interest payments, causing an adverse impact on cash flows from, and the valuation of, the mortgage-backed securities. The markets for these property investments and instruments can become illiquid, and issues relating to counterparty credit ratings and other factors can exacerbate pricing and valuation uncertainties.

A decline in equity markets or an increase in volatility in equity markets may adversely affect the investment portfolio, sales of investment products, fund management business and Group profitability.

Significant downturns and volatility in equity markets could have a material adverse effect on the Group’s financial condition and results of operations in several ways. Downturns and volatility in equity markets could have a material adverse effect on shareholder revenues and returns from unit-linked, participating and fund management businesses.

Because the Group's unit-linked and OEIC management businesses depend on fees related primarily to the value of assets under management, a decline in the equity markets could reduce revenues by reducing the value of the investment assets the Group manages.

The options and guarantees embedded in With Profits Business could become more onerous if equity markets decline and may require Group support if hedges and management actions are not in place or become ineffective.

Profits could also be reduced as a result of current investors withdrawing funds in volatile equity markets or reducing their rates of ongoing investment with the Group's products or as a result of failing to attract funds from new investors.

Fluctuations in currency exchange rates may adversely affect the Group's operating results and financial position.

The Group operates a European branch business which, although a relatively small part of the Group's operations, is exposed to foreign currency exchange risk arising from fluctuations in euro exchange rates. The Group's assets are denominated in a variety of currencies, of which the largest are sterling and the euro. Hedging transactions are used to limit non-sterling exposures. The effect of exchange rate fluctuations on local operating results could lead however to fluctuations in the Group's consolidated financial statements upon translation of the results into sterling. Although the Group takes certain actions to address this risk, foreign currency exchange rate fluctuation could adversely affect the Group's reported results due to unhedged positions or the failure of hedges to offset the impact of the foreign currency exchange rate fluctuation effectively. Each of the subsidiaries within the Group maintains sufficient assets in its local currency to meet local currency liabilities. Exchange rate movements, however, may impact the value of the Group's consolidated shareholders' equity, which is expressed in sterling.

Returns on unit linked business depend on fees related to the value of assets held in unit linked funds. Fluctuations in the value of sterling could therefore lead to fluctuations in the Group's earnings.

Price and earnings inflation may adversely affect the Group's operating results and financial position.

A significant proportion of the Group's maintenance costs are associated with staff salaries. If management fails to control such costs within the inflationary environment, Group profitability may be impacted. In addition, significant increases in inflation can impact the Group's unit costs in other ways and hence potentially impact on profitability and capital.

Increases in volatility implied in option prices could increase the burden of obligations in certain products.

The options and guarantees embedded in the Group's With Profits Business and a small proportion of unit-linked business could become more onerous if option implied volatilities increase and may require Group support if hedging transactions and management actions are not in place or become ineffective.

The Group uses derivative instruments to hedge various risks and is exposed to counterparty default risk.

The Group enters into a variety of derivative instruments, including options, forwards, credit default, interest rate and currency swaps with a number of counterparties. Obligations to policyholders are not changed by hedging activities and the Group is liable for obligations even if derivative counterparties do not pay. The fair value of these instruments, and the Group's exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought and the credit quality of the instrument provider. Market counterparties have been adversely affected by their exposure to residential mortgage-linked products, and their perceived creditworthiness has deteriorated significantly since 2007. Although the Group seeks to limit and manage direct exposure to market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of market counterparties or their perceived creditworthiness deteriorates further, the Group may record further credit valuation adjustments on the underlying instruments insured by such parties. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Group.

The Group is also susceptible to risks associated with the potential financial instability of service providers and business partners on which the Group relies or partially relies to provide services and grow the business.

Counterparty default risk may have an adverse impact on profitability and shareholders' equity.

The Group has a significant exposure to credit default risk through investments in corporate bonds, loans, residential and commercial mortgages, unsecured cash instruments and structured credit assets, as well as exposures through counterparty risks in derivatives contracts and reinsurance arrangements and other financial instruments. The risks in these assets and exposures may be borne by the Group or by the policyholders whose policies the assets back, or a mixture of the two, where the Group holds some residual risk such as in relation to With Profits Business. A counterparty default could create an immediate loss or a reduction in future profits, depending on where the loss occurred in the business.

The impairment of other financial institutions, service providers and business partners could adversely affect the Group.

The Group has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, hedge funds and other investment funds, other insurance groups and other institutions. Many of these transactions expose the Group to credit risk in the event of default of a counterparty. In addition, with respect to secured transactions, the Group's credit risk may be impacted where the collateral held cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to it. The Group also has exposure to these financial institutions in the form of unsecured debt instruments, derivative transactions and equity investments.

One potential source of increased systemic risk is presented by the market's perception of Euro-zone sovereign and bank borrowers, primarily in Italy, the Republic of Ireland, Greece, Portugal and Spain, as reflected in the quoted prices of bonds and credit default swaps for these borrowers.

There can be no assurance that any such losses or impairments to the carrying value of these assets would not materially and adversely affect the Group's business and results of operations.

Inability of reinsurers and insurers of the Group to meet their obligations, or the unavailability of adequate reinsurance coverage, may have an adverse impact on profitability and shareholders' equity.

The Group transfers exposure to certain risks to others through reinsurance arrangements.

When the Group obtains reinsurance, the Group remains primarily liable for the reinsured risks, regardless of whether the reinsurer meets its reinsurance obligations to the Group. Therefore, the inability or unwillingness of the Group's reinsurers to meet their financial obligations or disputes on, and defects in reinsurance contract wording or processes, could materially affect the Group's operations.

Reinsurers may become financially unsound by the time they are called upon to pay amounts due. As a result of financial market conditions and other macro-economic challenges recently affecting the global economy, reinsurers may experience increased regulatory scrutiny, serious cash flow problems and other financial difficulties. Reinsurers may also become financially unsound as a result of operational failures within their respective organisations. In addition, reinsurance may prove inadequate to protect against losses. Due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable ratings, the Group is exposed to concentrations of risk with individual reinsurers.

Furthermore, market conditions beyond the Group's control determine the availability and cost of the reinsurance protection purchased. Accordingly, the Group may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect the ability to write future business.

The Group is also exposed to similar risks in relation to insurance counterparties in relation to certain Group risks such as professional indemnity insurance.

Financial Soundness Related Risks

The Group is subject to the risk of having insufficient capital resources to meet the minimum required by regulators.

A perceived or actual shortage of capital could result in actions or sanctions, which may have a material adverse effect on the Group's business, including its operating results, financial condition and prospects. This, in turn, may affect the Group's capacity to continue its business operations, pay future dividends or pursue acquisitions or other strategic opportunities, impacting future growth potential.

Adverse capital and credit market conditions may significantly affect the Group's ability to meet liquidity needs, its access to capital and the Group's cost of capital.

The capital and credit markets have been experiencing volatility and disruption over recent years. In some cases, the markets have exerted downward pressure on availability of liquidity and credit capacity for certain groups.

The Group needs liquidity to pay operating expenses, interest on debt and dividends on ordinary shares, and to meet liabilities. Without sufficient liquidity, the Group will be forced to curtail operations, and the business will suffer. The principal sources of liquidity are fees related primarily to the value of assets under management, insurance premiums and cash flow from the investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets may include a variety of short-term and long-term instruments, including repurchase agreements, commercial paper, medium and long-term debt, junior subordinated debt securities, capital securities and shareholders' equity. The Group may not have access to all of these short-term and long-term instruments.

If current resources do not satisfy the Group's needs, the Group may have to seek additional financing. The availability of additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, the Group's credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of the Group's long- or short-term financial prospects if the Group incurs large investment losses or if the level of business activity decreased due to a market downturn. Similarly, access to funds may be impaired if regulatory authorities or rating agencies take negative actions against the Group. Internal sources of liquidity may prove to be insufficient, and in such case, the Group may not be able to successfully obtain additional financing on favourable terms, or at all.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit the Group's access to capital required to operate its business, most significantly its insurance operations. Such market conditions may limit the Group's ability to replace its maturing liabilities in a timely manner, satisfy statutory capital requirements, generate fee income and market-related revenue to meet liquidity needs, and access the capital necessary to grow the business. As such, the Group may be forced to delay raising capital, issue shorter term securities than would be preferable, or bear an unattractive cost of capital which could decrease profitability and significantly reduce financial flexibility. Consequently, the Group's results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets.

The Group is rated by several rating agencies, and a decline in any of these ratings could affect the Group's standing among brokers and customers and cause sales and earnings to decrease.

Financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade (or the perceived potential for such a downgrade) of the Issuer or any of the rated insurance subsidiaries may, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. The outcome of such activities may be cash payments requiring the sale of invested assets, including illiquid assets, at a price that may result in investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause the Group to accelerate amortisation of policy acquisition costs, reducing net income. A rating downgrade may also impact sales volumes.

Rating organisations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to general economic conditions and circumstances outside the rated company's control. In view of the difficulties experienced recently by many financial institutions, including the Group's competitors in the insurance industry, it is possible that the rating agencies, including S&P, Moody's and Fitch, will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in their models for maintenance of certain ratings levels. The Group cannot predict what actions rating agencies may take, or what actions may be taken in response to the actions of rating agencies, which could adversely affect the Group's business. As with other companies in the financial services industry, the Issuer's ratings could be downgraded at any time and without any notice by any rating agency. A downgrade may adversely affect relationships with broker-dealers, banks, agents, consultants, wholesalers and other distributors of products and services, which may negatively impact new sales and adversely affect the ability to compete and, thereby, have a material adverse effect on the Group's business, results of operations and financial condition. In addition, the interest rates paid on borrowings of the Group are affected by debt credit ratings.

In addition, S&P, Fitch and Moody's currently link the financial strength ratings of the Issuer to their ratings of LBG. As a consequence, S&P has indicated that its rating for the Issuer could be affected by future rating actions on LBG by S&P, while Moody's has indicated that its rating for the Issuer could be negatively impacted by a substantial weakening of LBG's credit profile. Any such change in the financial strength rating of the Issuer could also affect the credit ratings ascribed to the Notes.

The Group, as a 100 per cent. owned subsidiary of LBG, does not have the flexibility to go to the capital markets to raise equity.

The Group is wholly owned by LBG which may constrain opportunities to raise additional equity capital. Where additional equity capital is required the Issuer would expect to cease making distributions to its immediate parent company, Scottish Widows Financial Services Holdings ("**SWFSH**").

Some investments are relatively illiquid and are in asset classes that have been experiencing significant fluctuations in realisable value.

The Group may hold certain investments that may lack liquidity, such as asset-backed securities, social housing loans, investment properties held in property funds, private equity and unlisted equities, where the inputs used for their valuation are not directly observable in the market.

If significant amounts of cash are required on short notice in excess of expected cash requirements it may be difficult to sell these relatively illiquid investments in a timely manner, the Group may be forced to sell them for less than the Group otherwise would have been able to return, or both.

The reported value of relatively illiquid types of investments, investments in the asset classes described in the paragraph above and, at times, high quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If the Group were forced to sell certain assets in the current market, there can be no assurance that the Group would be able to sell them for the prices at which they were recorded and the Group may be forced to sell them at significantly lower prices.

Changes to International Financial Reporting Standards ("IFRS") generally or specifically for insurance companies may adversely affect the Group's financial results.

Changes to IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. The International Accounting Standards Board has published an exposure draft on Insurance Contracts that would introduce significant changes to the statutory reporting of insurance entities that prepare accounts according to IFRS. The accounting proposals will change the presentation and measurement of insurance contracts, including the effect of technical reserves and reinsurance on the value of insurance contracts. It is uncertain whether and how the proposals will affect the Group should they become definitive IFRS. These and any other changes to IFRS that may be proposed in the future, whether or not specifically targeted at insurance companies, could adversely affect the Group's results of operations and financial position.

The valuation of Fair Value ("FV") securities may include methodologies, estimations and assumptions which, by their nature, require judgement. The use of reasonable alternative methodologies, estimations and assumptions could result in changes to investment valuations that may materially adversely affect the Group's results of operations or financial condition.

The Group values FV securities using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated balance sheet, represent the majority of the Group's total cash and invested assets. The Group has categorised the measurement basis for assets carried at fair value into a "fair value hierarchy" in accordance with the valuation inputs and consistent with IFRS 7 "Financial Instruments: Disclosures" which requires entities first to assess whether there are available quoted prices in active markets for identical assets or liabilities (Level 1); secondly to look to fair values other than quoted prices based on observable market information (Level 2); and thirdly to use unobservable inputs that reflect the assumptions that the Group considers market participants would normally use (Level 3). The majority of the Group's financial assets are valued based on quoted market information or observable market data. At 31 December 2012, 2.2 per cent. of total financial assets at fair value were classified as Level 3, amounting to £2.1 billion. Where estimates were used for inputs to Level 3 fair values, these were based on a combination of independent third party evidence and internally developed models, calibrated to market-observable data where possible. An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

During periods of market disruption including periods of significantly rising or high interest rates or rapidly widening credit spreads or illiquidity, it may be difficult to value certain of the Group's securities, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes which were formerly in active markets (with significant observable data) which become illiquid due to the current financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgement. As such, valuations may include inputs and assumptions that are less observable or require greater estimation, as well as valuation methods which are more sophisticated or require greater estimation, thereby resulting in values which may be less than the value at which the investments may be ultimately sold. Furthermore, rapidly changing credit and equity market conditions could materially impact the valuation of securities as reported within the Group's consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on the Group's results of operations or financial condition.

From time to time changes in the interpretation of existing tax laws, amendments to existing tax rates, or the introduction of new tax legislation may adversely impact the Group's business, results of operations and financial condition.

Tax risk is the risk associated with changes in tax law or in the interpretation of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge. It could also lead to a financial penalty for failure to comply with required tax procedures or other aspects of tax law. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

There are also specific rules governing the taxation of policyholders. The Group will be unable accurately to predict the impact of future changes in tax law on the taxation of life insurance and pension policies in the hands of policyholders. Amendments to existing legislation (particularly if there is the withdrawal of any tax relief or an increase in tax rates) or the introduction of new rules may affect the future long-term business and the decisions of policyholders. The impact of such changes upon the Group might depend on the mix of business in force at the time of such change and could have a material adverse effect on the Group's business, results of operations and/or financial condition.

The design of life insurance products by life insurance companies takes into account a number of factors, including risks, benefits, charges, expenses, investment returns (including bonuses) and taxation. The design of long-term insurance products is based on the tax legislation in force at that time. Changes in tax legislation or in the interpretation of tax legislation may, therefore, when applied to such products, have a material adverse effect on the financial condition of the relevant long-term business fund of the company in which the business was written.

UK taxation law includes rules governing company taxes, business taxes, personal taxes, capital taxes and indirect taxes. The Issuer is not able to predict the impact of changes that may be announced in the future to UK tax legislation on its business. From time to time changes to existing UK and overseas tax laws (including as a result of changes in the interpretation of such tax laws), amendments to existing tax rates or the introduction of new tax legislation in the UK or overseas may adversely impact the business, results of operations and financial condition of the Group.

Recent changes to the UK legislation, contained in the Finance Act 2012 (the "**New UK Tax Rules**") that governs the taxation of life assurance undertakings, have adversely affected the life assurance undertakings within the Group (see below). The New UK Tax Rules constitute a new UK tax regime for insurance companies and are effective for accounting periods beginning on or after 1 January 2013.

The New UK Tax Rules represent a wide-ranging revision of both the basis on which life assurance profits are computed for UK tax purposes and the detailed rules by which those profits are taxed (in particular, two key changes are that, under the New UK Tax Rules, first, only basic life assurance and general annuity business will continue to be taxed on an income less expenses basis, with all other life assurance business (including gross roll-up, permanent health and protection businesses) being taxed together on the basis of trading profits and, secondly, the trading profits of a life assurance business will be calculated on the basis of the company's statutory accounts rather than on the basis of its regulatory returns). The New UK Tax Rules also included provisions to allow for adjustments to be made in connection with the transition from the pre 1 January 2013 basis of life assurance taxation to the New UK Tax Rules. These new rules resulted in an overall additional tax liability of £237 million for the year ended 31 December 2012 due to the inclusion of certain investments in the charge to tax under the transitional rules.

There may be changes to the current VAT rules which result in VAT being chargeable on certain outsourcing agreements of the Group and such VAT suffered not being recoverable from HM Revenue & Customs ("HMRC") as deductible VAT input tax.

The companies that form the Group currently do not bear significant amounts of VAT in respect of services they receive under their outsourced policy administration services agreements. If the amount of VAT payable on those activities were to increase then this would increase the costs of these companies to the extent that such VAT suffered is not recoverable from HMRC as deductible VAT input tax.

VAT is currently reduced or not charged on services under these agreements because the services are treated as exempt under the insurance intermediaries' exemption.

This is currently subject to possible change. In 2005, the decision of the European Court of Justice in *Staatssecretaris van Financien v Arthur Andersen & Co Accountants c.s.* (Case C-472/03) narrowed the scope of the insurance intermediaries' exemption. Following a consultation, the UK Government announced (in December 2005) that it would delay its decision on implementation within the UK of that court decision until the European Commission had undertaken its own review of the VAT treatment of financial services and insurance. That review led to the European Commission making a number of detailed proposals for changes in the relevant provisions of the EU Directive on the Common System of VAT. Those proposals have not, however, yet been accepted by the EU Council. It is not known when any changes to the UK VAT treatment of insurance intermediation might become law, what form those changes might take and what their impact (if any) on the Group would be.

The Group is required to comply with certain legal and regulatory requirements in respect of disclosure and financial and prudential reporting.

The Group is required to comply with certain legal and regulatory requirements in respect of disclosure and dissemination of information, including to the markets on which the Notes are listed. Failure to manage disclosure risk could result in breach of law, regulatory censure and reputational damage leading to loss of investor confidence and/or financial loss.

Financial and prudential reporting risk is the risk of reputational damage, loss of investor confidence and/or financial loss arising from; the adoption of inappropriate accounting policies, ineffective controls over financial reporting or over prudential regulatory reporting and financial reporting fraud.

The Group'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 Group's results and financial position, based upon materiality and significant judgements and estimates, include valuing insurance and investment contract liabilities.

In future periods, where the judgements, estimations and assumptions used by the Group in preparing its consolidated financial statements are found to differ to actual experience, there could be a material impact on the Group's results of operations and a corresponding impact on its funding requirements and regulatory capital. *(Also see – "The use of misestimated assumptions in pricing, reporting and reserving for insurance business may have an adverse effect on business profitability".)*

If the Group's business does not perform well, the Group may be required to recognise an impairment of intangibles with indefinite useful lives or intangibles with finite lives, which could adversely affect the Group's results of operations or financial condition.

The Group tests intangibles with finite lives when circumstances or events indicate there may be uncertainty over this value.

Intangible assets will be written down for impairment where the recoverable amount is insufficient to support their carrying value. Such write downs could have a material adverse effect on the Group's results of operations or financial position.

Insurance Risks

The use of misestimated assumptions in pricing, reporting and reserving for insurance business may have an adverse effect on business profitability.

The management of the life insurance business within the Group requires certain assumptions to be made in (i) determining the pricing of its products, (ii) setting reserves levels and (iii) reporting its capital levels and the results of its long-term business operations. Actual experience is likely to be different from these assumptions.

When establishing their liabilities, life insurance companies allow for changes in market conditions and monitor their experience against the actuarial assumptions used and assess the information gathered to refine their long-term assumptions. However, it is not possible to determine precisely the amounts in total that will be ultimately necessary to pay liabilities under the policies written by the business. Amounts may vary from estimates, particularly in the light of the long-term nature of the life insurance business.

For example, the assumption that the Group makes about future expected levels of longevity is particularly relevant for its UK annuity business. In exchange for a premium equal to the capital value of their accumulated pension fund, pension annuity policyholders receive a guaranteed payment, usually monthly, for as long as they are alive. The Group conducts rigorous research into longevity risk, using data from its substantial annuitant portfolio. As part of its pension annuity pricing and reserving policy, the Group's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data from the continuous mortality investigations data as published by the Institute and Faculty of Actuaries. If mortality improvement rates significantly exceed the improvement assumed, the Group's results of operations could be adversely affected.

Another example is the impact of epidemics and other effects that cause a large number of deaths. Significant influenza epidemics have occurred three times in the last century, but the likelihood, timing, or the severity of future epidemics cannot be predicted. This could have an adverse impact on the Group's life assurance business albeit the risk is mitigated by reinsurance. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on losses experienced by the Group.

In common with other industry participants, the profitability of the Group's businesses depends on a mix of factors, including mortality and morbidity trends, policy surrender rates, investment performance and impairments, unit cost of administration and new business acquisition expense. Changes in such assumptions may also lead to changes in the level of capital required to be maintained. If the assumptions underlying the Group's reserving methodology were not borne out in practice, it may be necessary to increase the amount of reserves, which could have a material adverse impact on the Group's value, the results of the Group's operations and/or financial condition and the Group's ability to manage its businesses in an efficient manner.

In addition, it is necessary for the directors of the relevant companies to make decisions, based on actuarial advice, which ensure an appropriate build-up of assets and liabilities relative to one another. These decisions include the allocation of investments among equity, fixed income, property and other asset classes, the setting of policyholder bonus rates and the setting of surrender terms and any applicable market value adjustments. There is a risk that certain policyholders may complain to the Group that their interests have been adversely affected, or that they have otherwise been treated unfairly, by such decisions. These arguments may give rise to regulatory consequences (including sanctions) or compensation obligations for the Group, which in turn may have a material adverse effect on the Group's business, results of operations or financial condition. In addition, the ability of such directors to take such decisions may be constrained by past practice and policyholders' expectations as set out in the Principles and Practices of Financial Management ("**PPFM**") applicable to With Profits Funds within the Group as well as the terms of the Schemes of Demutualisation relating to the Issuer and its subsidiary, Clerical Medical Investment Group Limited ("**CMIG**").

The Group may face losses if there are significant deviations from the assumptions regarding the persistency of policies.

Lapse risk, being the risk that future profits may decrease as a result of insurance policies lapsing or being surrendered in part or in full, may arise if rates of persistency are greater or less than assumed or if policyholders selectively lapse when it is beneficial to them. If the benefits payable on lapse or the benefits being paid-up are greater than the reserve held, then the risk will be of a worsening of persistency, leading to a potential reduction in future profits arising in respect of existing business. However, if the benefits which are paid out are lower than the reserves, then the risk will be that fewer than expected policyholders will lapse or become paid-up.

Variance in persistency will affect shareholder profits to the extent that charges levied against policies are dependent upon the number of policies in force and/or the average size of those policies or impacted by fewer future premiums being received than anticipated. The policies primarily relate to unit-linked, unitised with-profits and protection business. Profit may also be at risk if it is considered necessary, or prudent, to increase liabilities on certain lines of business.

The Group has a significant exposure to annuity business and a significant insurance risk is associated with longevity.

Longevity risk is the risk attached to increasing life expectancy of annuitants which can eventually translate into annuities being paid for longer than expected.

Longevity-related statistics are monitored in detail, compared with emerging internal experience and industry trends, and the results are used to inform both the reserving and pricing of annuities. Inevitably, there remains uncertainty about the development of future longevity and the future availability of techniques (such as reinsurance and swaps) to mitigate that risk. Further, should there be significant advances in medical treatment for certain health conditions the Group could be exposed to significant increases in liabilities under annuity contracts.

The Group has exposure to protection business and insurance risk is associated with mortality and morbidity.

While the risks are significantly mitigated through the use of third party reinsurance, the Group also has exposure to mortality risk (being the risk related to the frequency of deaths) and morbidity risk (being the risk related to the prevalence of a disease) from its insurance business. The risk could be aggravated by any potential failure in underwriting processes and standards designed to identify sub-standard lives at the new business stage. The risk around the timing and amount of death claims under protection products is controlled through the use of reinsurance.

Catastrophic events, which are often unpredictable by nature, could result in material losses and abruptly and significantly interrupt business activities.

The Group's life insurance operations, in particular, are exposed to the risk of catastrophic mortality, so that an event such as a pandemic or other event that causes a large number of deaths could have an adverse impact on the Group's results of operations in any period and, depending on its severity, could also materially and adversely affect the Group's financial condition. The Group's ability to write new business could also be affected.

Regulatory Risks (including risks arising from failing to comply with applicable laws, regulations and codes)

The Group's businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant material adverse effect on the Group's results of operations, financial condition and prospects. The Group's businesses are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK, the European Union and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the financial services sector, which the Group expects to continue for the foreseeable future. The UK Government, the PRA, FCA and other regulators in the UK, the European Union or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect the Group. Future changes are difficult to predict and could materially adversely affect the Group's business.

In the UK, the Group's business is subject to regulation by the PRA and the FCA. The PRA and the FCA have broad powers under FSMA, as amended, including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices and to require the maintenance of adequate financial resources. The PRA and the FCA each have the power to take a range of investigative, disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and to award compensation. The FCA may make enquiries of the companies which it regulates regarding compliance with regulations governing the operation of business and the Group faces the risk that the FCA could find that the Group has failed to comply with applicable regulations or has not undertaken corrective action as required.

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

(a) general changes in government, central bank, regulatory or capital policy, or changes in regulatory regimes that may influence investor decisions in particular markets in which the Group operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;

(b) external bodies applying or interpreting standards or laws differently to those applied by the Group;

(c) changes in competitive and pricing environments;

(d) further requirements relating to financial reporting, corporate governance, conduct of business and employee compensation;

(e) expropriation, nationalisation and confiscation of assets; and

(f) changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing.

The Lloyds Banking Group continues to face political and regulatory scrutiny as a result of its perceived systemic importance, in particular following Her Majesty's Treasury ("**HM Treasury**") becoming the largest shareholder in LBG.

The Group is subject to the risk of having insufficient capital resources to meet the minimum required by regulators. The Solvency II Directive will require European domiciled insurers to move to more risk-based capital requirements. However, while the detailed implementing measures still need to be agreed there is a risk that this could lead to a significant increase in the capital required to support the Group's annuity and other businesses (see also "*The European Commission is currently in the process of introducing a new regime ("Solvency II") governing solvency margins, own funds, reserves and governance, the effect of which is uncertain*").

The Group takes very seriously its responsibilities for complying with legal and regulatory sanctions requirements in all the jurisdictions in which it operates. In order to assist adherence to relevant economic sanctions legislation, the Group has enhanced its internal compliance processes including those associated with customer and payment screening. The Group has continued the delivery of a programme of staff training regarding policies and procedures for detecting and preventing economic sanctions for non-compliance.

The Group is continually assessing the impacts of legal and regulatory developments which could have a material effect on the Group and will generally participate in relevant consultation and calibration processes to be undertaken by the various regulatory and other bodies. Implementation of such regulatory developments could result in additional costs or limit or restrict the way that the Group conducts business. The Group continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate against risks to the Group and its stakeholders.

A determination that the Group has failed to comply with applicable regulation could have a negative impact on the Group's reported results or on relations with current and potential customers. Regulatory action against a member of the Group could result in adverse publicity for, or negative perceptions regarding, the Group, or could have a material adverse effect on the Group's business, results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

The European Commission is currently in the process of introducing a new regime ("Solvency II") governing solvency margins, own funds, reserves and governance, the effect of which is uncertain.

The European Commission is carrying out a wide-ranging review of the prudential regulation of insurers including regulatory capital, the calculation of technical provisions, valuation of assets and liabilities, regulatory and public reporting and governance (the new regime being known as "**Solvency II**"). It is intended that the new regime for insurers and reinsurers (apart from very small firms) will apply more risk-sensitive standards to capital requirements, bring insurance capital requirements more closely in line with bank and investment firm capital requirements with a view to avoiding regulatory arbitrage, align regulatory capital with economic capital and bring about an enhanced degree of public disclosure.

Insurers will be allowed to make use of internal economic capital models to calculate capital requirements if those models are first approved by the relevant regulator (which is the PRA for UK insurers); the PRA has established a pre-application procedure for internal model approval to enable those firms who wish to make use of them to submit applications for approval at an appropriate stage (the FSA started to accept internal model applications on 30 March 2012). There is a risk that if the Group does not receive permission to use an internal model that this could result in higher capital requirements and reputational damage.

The Solvency II Directive was formally adopted by the European Council on 10 November 2009 and is now proposed by the European Commission to enter into force at a future as yet unspecified date. The Group understands that there is now insufficient time for Solvency II to enter into force before 1 January 2015 and that it is unlikely to enter into force before 1 January 2016. The European Commission has initiated the process of developing detailed rules that will expand on the high-level principles of the Solvency II Directive, referred to as "Level 2 implementing measures", but this work is stalled pending finalisation of the Omnibus II Directive. There is significant uncertainty regarding the final text of the Level 2 implementing measures and Omnibus II Directive, and hence the requirements of Solvency II. As a result there is a risk that the effect of the measures finally adopted could be adverse for the Group, including among other things, a potentially significant increase in capital to support its business and costs associated with developing an internal model and enhanced risk management and governance framework.

One of the major areas of uncertainty in relation to Solvency II is the treatment of long-term guaranteed insurance products (such as annuities) and the assets that back them (usually, long-term fixed interest investments, such as government bonds). The Group has a significant exposure to annuity business and is therefore exposed to the risk that this uncertainty will be resolved in a way that requires the Group to hold greater capital against its existing annuity business and to re-design or re-price new annuities in a way that may be unattractive to potential annuitants.

There is also a risk that under the Solvency II implementing measures the existing capital instruments issued by the Group will be inefficient or ineligible. In these circumstances the Group may explore options for replacing its existing subordinated debt instruments and there is a risk that refinancing the existing debt could prove expensive, difficult or impossible on comparable terms, which could have a material adverse effect on the Group, including its business and financial condition.

A failure by the Group to implement the measures required by the Solvency II Directive in a timely manner could lead to regulatory action and have a material adverse effect on the Group's reputation, the confidence of its customers and therefore its business.

The Group is exposed to various forms of regulatory risk in its operations, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice, any of which could have a material adverse effect on its results or its relations with its customers.

The Group is exposed to various forms of regulatory risk in its operations including:

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

(b) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of the Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions;

(c) the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians; the FCA is expected to continue the FSA's focus on conduct of business activities through its supervision activity;

(d) contractual obligations may either not be enforceable as intended or may be enforced against the Group in an adverse way;

(e) the Group holds investments for a number of customers that might be or are subject to interest from various regulators and authorities including the Serious Fraud Office or similar regulators in the United States or other jurisdictions. The Group is not aware of any current investigation into the Group as a result of any such interest but cannot exclude the possibility of its conduct being reviewed as part of any such investigations;

(f) the intellectual property of the Group (such as trade names) may not be adequately protected;

(g) the Group may be liable for damages to third parties harmed by the conduct of its business; and

(h) the risk of regulatory proceedings and private litigation, arising out of regulatory investigations or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions.

The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability.

The Group may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Group believes that it has no liability. The Group may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Group may, for similar reasons, reimburse counterparties for their losses even in situations where the Group does not believe that it is legally compelled to do so. The risk from litigation on-going in Germany is set out in "*Operational Risks and Related Issues – The Group is at risk from legal claims currently being considered in the German courts.*".

Such matters are subject to many uncertainties, and the outcome of individual matters is not predictable.

Failure to manage these risks adequately could impact the Group adversely and materially, both financially and reputationally.

The financial impact of regulatory risks might be considerable but are difficult to quantify. Amounts eventually paid may exceed the amount of provisions set aside to cover such risks.

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

Inconsistent application of Directives by regulators in different EU member states may place the business at a competitive disadvantage to other European financial services groups.

Insurance regulation in the UK reflects the minimum requirements of current EU insurance directives, with an additional UK-specific overlay. When Solvency II is implemented, national-specific rules (sometimes referred to as “gold-plated” or “super-equivalent” rules) will generally be replaced by harmonised rules. Nevertheless, inconsistent application of Solvency II by regulators in different EU member states (and other EEA jurisdictions) – and the gold-plating that is permitted under the current insurance directives – may place the Group’s business at a competitive disadvantage to other European financial services groups. In addition, changes in the local regulatory regimes of non-European jurisdictions in which the Group operates could affect the calculation of the Group’s solvency position.

The Group’s businesses are subject to regulatory risk, including adverse changes in the laws, regulations, policies and interpretations in the markets in which it operates.

The Group will not always be able to predict accurately the impact of future legislation or regulation or changes in the interpretation or operation of existing legislation or regulation on the Group’s business, results of operations and/or financial condition. Changes in government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which the Group operates, which may be applied retrospectively, may adversely affect the Group’s product range, distribution channels, capital requirements and, consequently, results and financing requirements.

Such changes could include, for example, alterations to the regulatory framework for pension arrangements and policies or the regulation of selling practices and solvency requirements (including the implementation of Solvency II). The Group may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to financial services legislation or regulation. The Group faces significant compliance challenges because the regulatory environment is evolving rapidly and supervisory authorities around the world are assuming an increasingly active and aggressive role in interpreting and enforcing regulations in the jurisdictions in which the Group operates, for example in the UK, the extent of the FCA’s interpretation of the principle of “treating customers fairly”.

Significant regulatory initiatives from the U.S. impacting the Group include the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “**Dodd-Frank Act**”) which imposes specific requirements for systemic risk oversight, asset securitisation activities, securities market conduct and oversight, bank capital standards, arrangements for the liquidation of failing systemically significant financial institutions and restrictions to the ability of banking entities to engage in proprietary trading activities and make investments in certain private equity and hedge funds (known as the Volcker Rule). Furthermore, under the so-called swap “push-out” provisions of the Dodd-Frank Act, the derivatives activities of U.S. banks and U.S. branch offices of foreign banks will be restricted. Entities that are swap dealers, security-based swap dealers, major swap participants or major security-based swap participants are required to register with the Securities and Exchange Commission (“**SEC**”) or the U.S. Commodity Futures Trading Commission, or both, as of 31 December 2012, and will become subject to the requirements as to capital, margin, business conduct, recordkeeping, reporting and other requirements applicable to such entities. The

Dodd-Frank Act also grants the SEC discretionary rule-making authority to impose a new fiduciary standard on brokers, dealers and investment advisers, and expands the extraterritorial jurisdiction of U.S. courts over actions brought by the SEC or the United States with respect to violations of the antifraud provisions of the Securities Act, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940. The details of these regulations will depend on the final regulations ultimately adopted by various U.S. regulatory authorities

The Group's businesses are subject to regulatory uncertainty relating to the retail distribution review conducted by the FSA.

The RDR, which was implemented in January 2013, has resulted in new rules for the retail investment market, including investment insurance contracts, to provide, amongst other things, a more transparent and fair charging system for advice, which includes a restriction on certain commission structures previously used in the sale of investment products. They will potentially have a significant impact on the investment advisory industry, although there is currently insufficient data to assess their impact.

As a result, some advisers may choose to exit markets and therefore some customers may no longer receive advice from their advisers. Those advisers that remain will need to balance the cost to benefit ratio of their new advice model (whether independent or restricted) and one potential outcome is the significant shift to restricted advice, which in turn may lead to strategic partnerships which could reduce business flows from key intermediary partners to the Group.

Any increase in pricing transparency from the RDR is expected to lead to greater price sensitivity and/or to greater attention to value for money. Accordingly, a proportion of customers are expected to migrate towards self-investing as the level of information increases and customers become more aware of their own needs and corresponding financial products possibly resulting in fewer customers using investment services provided by the Group. However, it is still unclear how customers will behave post-RDR as one of the key challenges is moving the UK from a credit to a savings culture.

There is the potential for consumer brands or overseas competitors to view the RDR changes as an opportunity to access the UK's long-term savings market. If competition to the Group increases, then the Group's market share may decrease.

Changes to the rules on Insurance Mediation may result in adverse consequences on the ability of the Group to sell certain insurance products which may adversely impact the profits of the Group.

The Insurance Mediation Directive established an EU-wide supervisory regime for intermediaries involved in the promotion, sale and administration of certain insurance products. Proposed amendments to the regime via the Insurance Mediation Directive 2 ("**IMD2**") were published by the European Commission on 9 July 2012. It is expected that the European Parliament and the European Council will adopt IMD2 during 2013, that implementing technical standards would then be developed and that the amended regime will come into effect in 2015. It is possible that such changes may have an operational, cost or other negative impact on the Group and its distribution arrangements in particular. This could result in increased compliance costs for the Group.

IMD2 (together with amendments to the Markets in Financial Instruments Directive ("**MiFID**")) will also bring into force legislative proposals from the European Commission relating to packaged retail investment products ("**PRIPs**") which include new regulatory requirements for insurance PRIPs and aims to harmonise pre-contractual disclosures and selling practices. The rules will impact how PRIPs are manufactured and sold and are expected to be in place by the end of 2014. Although there is much uncertainty surrounding the business effects of IMD2, many of the risks associated with the RDR are relevant to the changes to insurance mediation rules, such as a risk of reduced business flows through intermediaries that have changed their business models and a change in the approach of customers to insurance PRIPs which may reduce sales. IMD2 is also expected to result in greater levels of harmonisation across the European Economic Area ("**EEA**") which may result in overseas competitors accessing the UK market and adversely impacting the Group's market share and its profits as a result.

New regulatory rules regarding the protection of with-profits policyholders may have an impact the operations of the Group and increase its costs.

In March 2012 the FSA published a policy statement (PS 12/04) revising some of the existing conduct of business rules and guidance for With Profits Business and introducing new with-profits governance rules and guidance. The new rules, which have applied since 1 April 2012, are included in an amended FCA conduct of business sourcebook Chapter 20 (with a small amendment to the supervision sourcebook) and include changes to the rules on the participation of with-profits policyholders in surpluses, the test for accepting new business in a with-profits fund, strategic investments of a with-profits fund, conflicts of interest and governance of With Profits Funds. The rule changes are not expected to have a significant impact on the Group. However, since significant amounts of the Issuer's legacy business include With Profits Business, any required changes to the practices, procedures and management of its With Profits Funds may increase the compliance and governance costs of the Group in the future and reduce the profits of the Group from With Profits Business.

The European Court of Justice ("ECJ") ruling in the "Test Achats" decision no longer allows EU member states to rely upon a derogation in Article 5(2) of the Gender Directive, to allow gender specific pricing of premiums, which may result in reduced levels of insurance business and adversely affect the profits of the Group.

On 1 March 2011, the ECJ published its Test Achats ruling. The ECJ ruled that the exemption in Article 5(2) of the Gender Directive which allowed insurers to use gender-related factors in determining premiums and benefits under insurance policies, was incompatible with the prohibition on discrimination on the grounds of gender enshrined as a fundamental right of the EU, and was therefore invalid. As a result insurers were given until 21 December 2012 to change their practices to comply with the ECJ ruling.

The effect of this decision is that in determining levels of premiums for insurance policies (including in particular life, health and annuities), the Group can no longer use gender as a determining factor in the pricing of new policies. Recent guidance from the European Commission has clarified, however, that insurers can continue to offer gender specific products, or options within products where conditions affect only or predominantly one gender, such as testicular cancer. This legislative change may have an adverse impact upon the pricing and underwriting of certain insurance products, such as annuities, which previously charged a lower premium for certain customers based partly on gender and could result in reduced demand for certain products by certain types of policyholder due to increased premiums. There is also likely to be pricing volatility as insurers adjust to the new regime and underwriting costs could increase as alternative underwriting criteria are introduced.

New rules relating to Alternative Investment Fund Managers may result in an increase in compliance costs and resulting adverse impacts for the Group.

The Alternative Investment Fund Managers Directive ("**AIFMD**") is a European Directive which aims to provide a harmonised regulatory and supervisory framework for managers of Alternative Investment Funds ("**AIFs**") within the EU. It sets rules regarding the organisation and conduct of business of the managers and imposes certain new requirements on the AIFs. The ultimate deadline for EU Member States to transpose the AIFMD into their national law is July 2013. Managers of AIFs already active before July 2013 will have until July 2014 to obtain authorisation from their relevant competent authority. At a local level, the UK regulator has already stated that it will introduce a new rule book to implement the Directive requirements and full details on these new rules are expected in the first half of 2013. The Group operates a substantial number of funds deemed to be AIFs and the scope and content of the changes is significant. The AIFMD lays down rules for the authorisation, ongoing operation and transparency of managers of AIFs and also places additional responsibilities and liabilities on AIF Depositaries. The Group may face increased compliance costs due to the need to set up additional compliance controls or reporting requirements to comply with the new rules. In addition, depositary charges to the Group may increase as they seek recompense for the additional risks and expenses introduced by the new regime.

Regulatory reform in structure and approach may result in an increase in compliance costs and resulting adverse impacts for the Group.

Following the onset of the recent financial crisis, the FSA adopted a more intrusive and direct style of regulation which it termed "intensive supervision". This strategy, combined with an outcome-focused regulatory approach, more proactive approach to enforcement and more punitive approach to penalties for infringements means that authorised firms are facing increasing supervisory intrusion and scrutiny (resulting in increasing internal compliance costs and FSA supervision fees) and in the event of a breach of their regulatory obligations are likely to face more stringent penalties. It is anticipated that this intensive approach to supervision will be continued by the PRA and the FCA as the FSA's successor regulatory authorities.

The Financial Services Act 2012 received Royal Assent on 19 December 2012. For the purposes of the regulation of insurers, the Act splits the regulatory supervision regime of the FSA between a new prudential regulator, the PRA, and a conduct regulator, the FCA. New powers for the PRA and FCA allow them to take judgment focused pro-active intervention to avoid risks of financial instability (the PRA) and consumer and market detriment (in the case of the FCA). The FCA has extensive product banning powers which will allow it to intervene by making orders (in some cases at short notice without approval of Parliament or pre-publication to the market) and stop the issue of insurance products which are causing, or likely to cause, consumer or market detriment.

The regulation of With Profits Business is shared between the FCA and the PRA. In general, the FCA will focus on fairness in relation to the conduct of With Profits Business (including the declaration of bonuses) whereas the PRA will focus on affordability of bonuses and other matters affecting financial strength. In most cases of potential conflict in relation to the regulation of With Profits Business, the PRA has veto powers over the FCA. Accordingly, there may be greater focus on the capital position of With Profits Funds in the future, potentially leading to an increase in the capital needed to support such funds.

The PRA must consult the FCA on matters relevant to achieving an appropriate balance between the interests of policyholders and the prudential position of the firm, and the FCA is required to provide advice. The FCA could also choose to exercise its product intervention powers in relation to certain investment products offered by the Group which may result in an adverse effect on the profits of the Group and results of operations from such products.

Overall, the Financial Services Act 2012 may result both in increased regulatory oversight of the activities of the Group as a financial services firm, resulting in constraints in the business activities of the Group and/or increases in Regulatory Capital Requirements, and/or increased amounts of time and resources of the Group committed to compliance with the requirements of two new regulators with separate approaches and objectives, which could result in a material increase in compliance costs.

Operational Risks and Related Issues

The Group could fail to attract or retain senior management or other key employees.

Failure to attract and retain senior management and key employees could have a material adverse impact on the Group's results of operations, financial condition or prospects, and presents a significant risk to the delivery of the Group's overall strategy.

The Group's success depends on its ability to attract, retain and develop high calibre talent. Achievement of this aim cannot be guaranteed, particularly in light of ongoing regulatory and public interest in remuneration practices (the Group is subject to the FCA's Remuneration Code). The Lloyds Banking Group has also made a number of other commitments regarding its pay policy, encompassing pay governance, transparency and engagement with its shareholders on pay policy.

The Lloyds Banking Group's continuing structural consolidation and the sale of part of the branch network under Project Verde (as defined below) may result in disruption of senior management's ability to lead and manage its business effectively, and macroeconomic conditions and negative media attention on the financial services industry may adversely impact employee retention, colleague sentiment and engagement.

Weaknesses or failures in the Group's internal processes, systems and security could materially adversely affect the Group's results of operations, financial condition or prospects and could result in reputational damage to the Group.

Operational risks, through inadequate or failed internal processes, systems (including financial reporting and risk monitoring processes) or security or from people-related or external events, including the risk of fraud and other criminal acts (such as cyber attack) carried out against the Group, are present in the Group's businesses. The Group's businesses are dependent on processing and reporting accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, in different currencies and subject to a number of different legal and regulatory regimes. Any weakness in these internal processes, systems or security could have an adverse effect on the Group's results, reporting of such results, and on the ability to deliver appropriate customer outcomes during the affected period. In addition, any breach in security of the Group's systems could disrupt its business, result in the disclosure of confidential information and create significant financial and legal exposure to the Group. Although the Group allocates significant resource to maintain and regularly update its processes and systems and uses tools that are designed to protect the security of the Group's systems, software, networks and other technology assets, there is no assurance that all of the Group's measures will provide absolute security. Any damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in Group systems, processes or security could have a material adverse effect on the Group's results of operations, financial condition or prospects.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or any relevant company within the Group 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 PRA and the FCA.

There is a risk of reductions in earnings and/or asset value, through financial or reputational loss, from inappropriate or poor customer treatment.

Customer treatment risk arises as a result of the Group's interaction with customers and represents the risk that the Group achieve outcomes for customers, which are, or could be expected to become, detrimental to them.

Associated risks include poor product design and development, inappropriate literature and promotions, poor customer advice and failings in administration and customer service including customer complaint handling. This could result in regulatory censure and fines, additional costs incurred for back book reviews, customer redress as well as weakening customer loyalty.

Errors may affect the calculation of unit prices, deduction of charges, premiums charged or bonuses declared which may require it to compensate customers retrospectively.

A significant proportion of the Group's product sales are unit-linked contracts, where product benefits are linked to the prices of underlying unit funds. Whilst comprehensive controls are in place, there is a risk of error in the calculation of the prices of these funds, which may be due to human error in data entry, IT-related issues or other causes. Additionally, it is possible that policy charges which are deducted from these contracts are taken incorrectly, or the methodology is subsequently challenged by policyholders or regulators and changed retrospectively. These risks are also faced by the Group's fund management business.

The benefits payable under with-profits contracts depend on the bonuses added to policies throughout their lifetime and at maturity. There is a risk of error in the process of determining the appropriate bonus rates to be applied and in the updating of the systems to apply these bonuses to the relevant policies. These errors may be human error in data entry, data related errors, IT-related issues or other causes.

Certain protection contracts have provisions for the premiums to be increased in line with general experience. There is a risk that the revised premiums are calculated incorrectly due to failures in the process or that the methodology for calculating the revised premiums are challenged by policyholders or regulators and changed retrospectively.

Any of these factors can give rise to compensation payments to customers. Controls are in place to mitigate these risks, but errors could give rise to future liabilities. Payments due to errors or compensation may negatively impact the Group's profits.

Terrorist acts, other acts of war, geopolitical, pandemic or other such events could have a material adverse effect on the Group's results of operations, financial condition or prospects.

Terrorist acts, other acts of war or hostility, geopolitical, pandemic or other such events and responses to those acts/events may create economic and political uncertainties, which could have a material adverse effect on UK and international macro-economic conditions generally, and more specifically on the Group's results of operations, financial condition or prospects in ways that cannot necessarily be predicted.

The Group is involved in various legal proceedings and regulatory investigations and examinations and may be involved in more in the future.

The Group, like other financial organisations, is subject to legal proceedings and regulatory investigations and examinations in the normal course of its business (together, "**proceedings**"). Due to the nature of these proceedings, it is not practicable to forecast or determine the final results of all such proceedings. See further, the risk factor "*The Group is at risk from claims currently being considered in the German courts*." below and the section entitled "*The Issuer and the Group – Legal Actions and Regulatory Matters – Legal Actions*" below in relation to certain current proceedings.

Additionally, it is possible that a regulator in one of the jurisdictions in which the Group conducts its business may conduct a review of products previously sold, either as part of an industry-wide review or specific to the Group. The result of this review may be to compensate customers for losses they have incurred as a result of the products they were sold. A risk to the Group from claims received against one of its subsidiaries is captured below.

The Group is at risk from claims currently being considered in the German courts.

CMIG has received a number of claims in the German courts, relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. In its audited financial statements for the year ended 31 December 2011, the Group recognised a provision of £175 million with respect to this litigation. Following decisions in July 2012 from the Federal Court of Justice in Germany ("**FCJ**") the Group has recognised a further provision of £150 million with respect to this litigation, increasing the total provision to £325 million.

However, there are still a number of uncertainties as to the full impact of the FCJ's decisions, and the implications with respect to the claims facing CMIG. As a result the ultimate financial effect, which could be significantly different to the provision, will only be known once there is further clarity with respect to a range of legal issues involved in these claims and/or all relevant claims have been resolved.

Risk management policies and procedures may leave the Group exposed to unidentified or unanticipated risk, which could negatively affect the business.

Management of risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events. The Group has devoted significant resources to develop risk management policies and procedures, including the development of forward looking risk indicators, and expects to continue to do so in the future. Nonetheless, these policies and procedures may not be comprehensive. Many of the methods for managing risk and exposures are based upon the use of observed historical market behaviour or statistics based on historical models. As a result, these methods may not fully predict future exposures, which can be significantly greater than historical measures indicate, particularly in unusual markets and environments. Other risk management methods depend upon the evaluation of information, regarding markets, clients, catastrophe occurrence or other matters, that is publicly available or otherwise accessible to the Group. This information may not always be accurate, complete, up-to-date or properly evaluated. Although the Group makes use of forward looking risk indicators where appropriate, it is not possible for these indicators to precisely predict future outcomes which may result in the Group being exposed to unidentified or unanticipated risks.

Risks relating to the outsourcing of services.

The Group outsources certain functions and services internally to other areas of the Lloyds Banking Group and externally to third parties and may increase its use of outsourcing in the future. If the Group does not effectively develop and implement its outsourcing strategy, third party providers do not perform as anticipated or the Group experiences technological or other problems with a transition, the Group may not realise productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business. In addition, the ability to receive services from third party providers outside of the UK (or the jurisdictions in which subsidiaries operate) might be impacted by cultural differences, political instability, unanticipated regulatory requirements or policies inside or outside of the UK. As a result, the Group's ability to conduct business might be adversely affected.

A computer system failure or security breach may disrupt the business, damage reputation and adversely affect results.

The Group uses computer systems to store, retrieve, evaluate and utilise customer and company data and information. The Group's business is highly dependent on its ability to access these systems to perform necessary business functions such as providing customer support, administering products, making changes to existing policies, filing and paying claims, managing the Group's investment portfolios and producing financial statements. While the Group has policies, procedures, automation and backup plans designed to prevent or limit the effect of failure, the Group's computer systems may be vulnerable to disruptions or breaches as a result of human error, natural disasters, man made disasters, criminal activity, pandemics or other events beyond the Group's control. The failure of the Group's computer systems for any reason could disrupt the Group's operations, result in the loss of customers and may adversely affect the Group's business.

Policyholders may attempt to seek redress against the Group where they allege that a product fails to meet the reasonable expectations of the policyholder, including where there are future changes in legislation or regulation.

The design of long-term insurance and investment products is predicated on legislation (particularly tax legislation) and regulation extant at that time. However, future changes in legislation/regulation or interpretation of the legislation/regulation may, when applied to these products, have a material adverse effect on the financial condition of the relevant long-term funds of the Life and Pensions businesses in which the business was written and therefore have a negative impact on policyholder returns.

Long-term product design, including new business, will take into account, among other things, risks, benefits, charges, expenses, investment return (including bonuses) and taxation. A policyholder or group of policyholders may seek legal redress where the product fails to meet their reasonable expectations. Given the inherent unpredictability of litigation and evolution of judgments by the FOS, it is possible that an adverse outcome in some matters could have a material adverse effect on the business, results of operations and/or financial condition of the Group arising from the penalties imposed or compensation awarded, together with the costs of defending any action.

Failure to maintain adequately and protect customer and employee information could have a material adverse effect on the Group.

The Group collects and processes personal data (including name, address, age, bank and credit card details and other personal data) from its customers, third party claimants, business contacts and employees as part of the operation of its business, and therefore it must comply with data protection and privacy laws. Those laws impose certain requirements on the Group in respect of the collection, retention, use and processing of such personal information. For example, under UK and EU data protection laws and regulations, when collecting personal data, certain information must be provided to the individual whose data is being collected. This information includes the identity of the data controller, the purpose for which the data is being collected and any other relevant information relating to the processing. There is a risk that data collected by the Group and its appointed third parties is not processed in accordance with notifications made to both data subjects and regulators. Failure to operate effective data collection controls could potentially lead to regulatory censure, fines, reputational and financial costs as well as result in potential inaccurate rating of policies or overpayment of claims.

In addition, the Group is exposed to the risk that the personal data it controls could be wrongfully accessed and/or used, whether by employees or third parties, or otherwise lost or disclosed or processed in breach of data protection regulations. If the Group or any of the third party service providers on which it relies (including other members of the Lloyds Banking Group) fail to process, store or protect such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, the Group could face liability under data protection laws. This could also result in damage to the Group's brands and reputation as well as the loss of new or repeat business, any of which could have a material adverse effect on the Group's business, results of operations and financial position.

Other Risks

There are inherent funding risks associated with participations in defined benefit staff pension schemes.

The Group contributes to a number of defined benefit ("**DB**") schemes in respect of its employees each of which is closed to new entrants. By far the largest contribution is to the Scottish Widows Retirement Benefits Scheme ("**SWRBS**"); this scheme is the only DB scheme that sits within the Group. The SWRBS was closed to new entrants in January 2003.

Liability for benefits provided by the SWRBS is recognised in the financial statements of Scottish Widows Services Limited ("**SWS**"), a subsidiary of the Issuer. The Issuer is the principal employer of SWRBS and has provided a guarantee to the trustees of SWRBS (through Scottish Widows Pension Trustees Limited, the corporate trustee) to cover explicitly the minimum legal obligations imposed under section 75 of the Pensions Act 1995 on the participating employers, SWS, Scottish Widows Investment Partnership Limited, Scottish Widows Investment Partnership Group Limited and Lloyds TSB Bank plc. As a result, the Issuer will be liable for any amounts due under section 75 that is not paid by a participating employer, in the event that the SWRBS is wound up, a participating employer becomes insolvent or in certain other specified circumstances.

A deficit may arise in relation to an ongoing pension scheme where there is investment underperformance (i.e. where the value of the asset portfolios and returns from them are less than expected) and also where there are greater than expected increases in the estimated value of the scheme's liabilities, for example on account of the increased longevity of participants in the pension scheme.

The latest complete scheme funding valuation of the SWRBS was undertaken for the trustees in May 2009 and showed a £268 million deficit on an ongoing funding basis. A programme of contributions to address this deficit, payable by the Group from May 2010 to April 2019, was subsequently agreed with the trustees of the SWRBS.

The funding position of the SWRBS and the contributions made into the SWRBS by the Issuer are reviewed regularly as required by the regulator. A valuation as at May 2012 is currently being discussed between the Issuer and the trustees, with the impact on the agreed contribution schedule being assessed.

The cyclical nature of the insurance industry may cause fluctuations in results.

Historically, the insurance industry has been cyclical and operating results of insurers have fluctuated significantly because of volatile and sometimes unpredictable developments, many of which are beyond the direct control of any insurer. Although the Group has a diverse range of products, it is expected that the Group will experience the effects of this cyclical nature, including changes in sales and premium levels, which could have a material adverse effect on results of its operations.

Future relative investment underperformance may adversely affect the Group's ability to attract new business and retain existing business.

Scottish Widows Investment Partnership Limited ("**SWIP**") is the investment manager of the assets underlying many of the contracts sold by the Life and Pensions businesses of the Group. Investment performance is a factor in the selection of product provider by distributors and their customers for some product types, for example, personal and group pension products. If SWIP consistently underperforms relative to other fund managers it could lead to difficulties for the Group in attracting new business and to the early termination, surrender or transfer of existing investment-related business. Difficulties in attracting new business or retaining existing business could have a material adverse effect on the Group's business, results of operations and/or financial condition.

Corporate transactions may divert management attention and other resources and may materially adversely impact the Group's financial position.

Corporate transactions may occur in the future and could adversely affect the Group's operating results, including the substantial amount of management time that may be diverted from operations to pursue and complete transactions. The Group's corporate transactions could also result in a loss of earnings and additional indebtedness, costs, contingent liabilities, and impairment and amortisation expenses, all of which could materially adversely affect the Group's businesses, financial condition and results of operations.

Scottish Widows demutualisation scheme and PPFM: restrictions on shareholder assets within the Issuer.

The basis on which the Group's business is run following the demutualisation and transfer to the Issuer of its business is set out in (i) a court-approved scheme of transfer (the "**Scheme**") sanctioned by the Court of Session in Edinburgh in February 2000 and (ii) in relation to the Group's With Profits Business, its PPFM. The terms of the Scheme and the PPFM are not "Relevant Rules" for the purposes of Conditions 5(b), 7(b) and 20 and so any failure to comply with the terms of the Scheme and/or PPFM will not give rise to a mandatory deferral of principal or interest in accordance with the Conditions. However, the Issuer must comply with the terms of the Scheme and the PPFM in funding payments of principal and interest under the Notes, in particular in order to avoid breaching their requirements as to the use of the Group's assets in excess of policyholder liabilities and capital requirements.

The Issuer expects to comply with the terms of the Scheme and PPFM by managing its relevant businesses appropriately and/or, if required, by issuing further regulatory capital (including in excess of the PRA's minimum regulatory capital requirements). If, however, it were not able to do so, the requirements of the Scheme and the PPFM (which may be affected by the implementation of Solvency II) may adversely affect the Issuer's ability to make payments of principal and interest when due on the Notes. For further information about the Scheme and the PPFM, see the sections of this Prospectus entitled *"The Issuer and the Group – Description of The Group – The Issuer and the Scottish Widows' Demutualisation Scheme*".

Risk Associated with being a Wholly Owned Subsidiary of LBG

The Group is reliant on the Lloyds Banking Group for distribution of a significant volume of its insurance products through the LBG branch network.

The Group operates a very significant strategic partnership with the Retail and Wealth Divisions of its ultimate parent company, LBG. Maintaining this partnership is important to the marketing, sale and distribution of its products. The Group's bancassurance relationship with LBG accounted for a substantial portion of new business in 2011 and 2012.

Given the importance of this distribution and marketing relationship with LBG's Retail and Wealth divisions, any cancellation or change in terms could result in a significant adverse impact to the Group's performance, including future new business levels and the retention of existing business. The volume of business generated through LBG may also be adversely impacted by regulatory and other developments, including the ongoing introduction of rules regarding financial advisory practices in the retail distribution market, EU or UK government mandated changes such as the compulsory sale of the retail business of 632 bank branches ("**Project Verde**") and by subdued customer demand due to deteriorating economic conditions.

While the Group is operated independently from LBG and its banking subsidiaries, it relies on other members of LBG for, or shares with such members, many services. The Group also outsources certain functions and services internally to other areas of the Lloyds Banking Group. Other risks related to the Group's ownership structure are set out below.

LBG exerts substantial influence over and has certain consequential effects on the Group.

As the ultimate parent company of the Group, LBG has the power to affect or influence the Group's legal and capital structure, as well as the ability to elect and remove its directors and management and the ability to approve other changes to the Group's operations. The short-term or long-term interests of LBG could conflict with those of the Group. Events relating to LBG or to other companies within the Lloyds Banking Group could also have a consequential effect on the Issuer and the Group, such as a negative effect on the Group's credit rating and/or capital position.

See also "*Financial Soundness Related Risks – The Group is rated by several rating agencies, and a decline in any of these ratings could affect the Group's standing among brokers and customers and cause sales and earnings to decrease*" above in relation to how the credit ratings of LBG may affect the financial strength ratings of the Issuer and the credit ratings of the Notes.

LBG and its UK subsidiaries may be subject to the provisions of the Banking Act 2009 in the future. The potential impact on the Group is inherently uncertain.

Under the Banking Act 2009 (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the Bank of England (including the PRA) and the FCA (together, the "**Authorities**") as part of a special resolution regime relating to banks and bank holding companies, including LBG (the "**SRR**"). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA).

The SRR consists of three stabilisation options and two insolvency and administration procedures applicable to UK banks which may be commenced by the Authorities. The stabilisation options provide for: (i) transfer of all or part of the business 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 (nationalisation) 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. The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances.

In general, the Banking Act requires the Authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the United Kingdom. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it. The Authorities are also empowered by order to amend the law for the purpose of enabling the powers under the SRR to be used effectively. An order may make provision which has retrospective effect. In general, there is considerable uncertainty about the scope of the powers afforded to Authorities under the Banking Act and how the Authorities may choose to exercise them.

LBG (and therefore the Issuer as a wholly owned subsidiary) is subject to European state aid obligations following the approval of its restructuring plan. The implementation of this restructuring plan may have consequences that are materially adverse to the interests of the Group.

On 18 November 2009, the European Commission approved a restructuring plan that the Group was required to submit (the "**Restructuring Plan**") as a result of HM Treasury's investment in LBG in the context of a placing and open offer by LBG in November 2008. The principal elements of the Restructuring Plan seek to support the long-term viability of the Lloyds Banking Group and to remedy any distortions to competition and trade in the EU arising from the state aid that the Lloyds Banking Group has received, including HM Treasury's subsequent participation in LBG's placing and compensatory open offer in June 2009 and the rights issue in November 2009. It also seeks to address any commercial benefit received by the Lloyds Banking Group following its announcement in March 2009 of its then intention to participate in the UK Government Asset Protection Scheme ("**GAPS**"). In the deed of withdrawal from GAPS in November 2009, LBG agreed with HM Treasury to comply with the terms of the European Commission's decision.

In line with the Restructuring Plan agreed in July 2012, the Lloyds Banking Group announced that it had agreed non-binding heads of terms with The Co-operative Group plc for the mandated retail divestment known as Project Verde. The Lloyds Banking Group continues to work with the Co-operative Group to agree a sale and purchase agreement, with completion of the divestment expected by the end of November 2013.

The Lloyds Banking Group is subject to various risks as a result of the implementation of the Restructuring Plan. In particular, should the Lloyds Banking Group fail to complete the disposal of the retail banking business that it is required to divest by the end of November 2013, then in the absence of any time extension being granted by the European Commission, a divestiture trustee would be appointed to conduct the sale, with a mandate to complete the disposal with no minimum price (including at a negative price). As a direct consequence of the implementation of the Restructuring Plan, the Lloyds Banking Group will lose existing customers, deposits and other assets (and may also lose additional customers, deposits and other assets indirectly through damage to the rest of the Lloyds Banking Group's business as a result of the implementation of the Restructuring Plan). It may also lose the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals. Moreover, implementation may result in disruption to the retained businesses, impacting customers and necessitating potentially significant separation costs. Implementation may also have a negative impact on the Lloyds Banking Group's competitive position, including through the emergence of new competitors particularly in the creation of a viable competitor through the retail banking business disposal.

Should the Group require further state aid that was not covered in the European Commission's approval decision of 18 November 2009, the Lloyds Banking Group may have to commit to further restructuring measures, which could have a material adverse effect on the interests of the Group.

The Commissioners of HM Treasury is the largest shareholder of the ultimate parent company of the Issuer. Through its shareholding in, and other relationships with, LBG, HM Treasury is in a position to exert significant influence over the Group and its business.

HM Treasury holds 39.2 per cent of the ordinary share capital of LBG, the ultimate parent company of the Issuer. In the longer term, it is possible that the shareholding of HM Treasury may be diluted upon any further equity capital raising or potential conversion of LBG's enhanced capital notes (being contingent convertible notes) into ordinary shares pursuant to their terms, although, in such case, it is expected that HM Treasury would remain a significant shareholder in LBG. It is also possible that LBG may seek to raise further capital or to obtain other support from the UK Government, which could result in an increase in HM Treasury's shareholding in LBG.

No formal relationship agreement has been concluded between the Lloyds Banking Group and HM Treasury in respect of its shareholding in LBG and no express measures are in place to limit the level of influence which may be exercised by HM Treasury. However, the relationship falls within the scope of the revised framework document between HM Treasury and UK Financial Investments Limited ("**UKFI**") published on 1 October 2010, which states that UKFI will manage its investment in the UK financial institutions in which HM Treasury holds an interest 'on a commercial basis' and will not intervene in day-to-day management decisions of the investee companies (including with respect to individual lending or remuneration decisions). The framework document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision. Nevertheless, there is a risk that HM Treasury might seek to exert influence over the Lloyds Banking Group in relation to matters including, for example, commercial and consumer lending policies and management of the Lloyds Banking Group's assets and/or business. There is also a risk of the existing framework document being replaced or amended, leading to potential interference in the operations of the Lloyds Banking Group, although there has been no indication that the UK Government intends to change the existing operating arrangements.

There is also a risk that, through the interest of HM Treasury in LBG, the UK Government and HM Treasury may attempt to influence the Lloyds Banking Group in other ways that could affect the

Lloyds Banking Group's business and that of the Group in ways that may not be in the interests of the other shareholders, including, for example, through the election of directors, the appointment of senior management at LBG, senior management and staff remuneration policies and management of the Lloyds Banking Group's business (in particular, the management of the Lloyds Banking Group's assets, significant corporate transactions and the issue of new ordinary shares by LBG). Moreover, HM Treasury also has interests in other UK financial institutions, as well as an interest in the general health of the UK banking industry and the wider UK economy. The pursuit of those interests may not always be aligned with the commercial interests of the Lloyds Banking Group or the Group.

Risks Related to the Structure of the Notes

Subordination.

The Issuer's payment obligations under the Notes will be unsecured and subordinated (i) on a winding-up of the Issuer and (ii) in the event that an administrator of the Issuer is appointed and gives notice that it intends to declare and distribute a dividend and, in each case, will rank junior in priority to the claims of Senior Creditors.

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

Payments by the Issuer conditional upon the satisfaction of solvency requirements.

All payments by the Issuer under or arising from the Notes are conditional upon the Issuer being solvent at the time for payment by the Issuer, and no amount shall be payable under or arising from the Notes and the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**"). For these purposes, the Issuer will be "solvent" if (i) it is able to pay its debts owed to Senior Creditors and Pari passu Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors). If any payment of interest, Arrears of Interest and/or principal cannot be made by the Issuer in compliance with the Solvency Condition, payment of such amounts will be deferred, and such deferral will not constitute a default under the Notes for any purpose.

Interest payments under the Notes may be deferred and, in certain circumstances must be deferred.

The Issuer may, on any Optional Interest Payment Date, elect to defer payments of interest on the Notes. In addition, the Issuer is required to defer any payment of interest on the Notes (i) in the event that it cannot make such payment in compliance with the Solvency Condition or (ii) on each Mandatory Interest Deferral Date (being an Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made by the Issuer on such Interest Payment Date).

The Issuer is only required to pay interest on the Notes on any Interest Payment Date (unless such date is a Mandatory Interest Deferral Date or the Issuer could not make such payment in compliance with the Solvency Condition) where, during the six months ended on such Interest Payment Date, a Compulsory Interest Payment Event has occurred, including if the Issuer has declared, paid or made a dividend or distribution to its ordinary shareholder. All of its ordinary shares are currently held by Scottish Widows Financial Services Holdings. The Issuer has absolute discretion not to declare a dividend on its ordinary shares, and its ability to declare a dividend is dependent on a number of factors, including its financial condition and performance, the amount of its distributable profits and reserves on an unconsolidated basis, its capital requirements, applicable restrictions on the payment of dividends under applicable laws and regulations and such other factors as the Issuer's board of directors may deem relevant.

The deferral of interest as described above will not constitute a default under the Notes for any purpose. Any interest so deferred shall, for so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest do not themselves bear interest. Arrears of Interest may, subject to certain conditions, be paid by the Issuer at any time upon notice to Noteholders, but in any event shall be payable by the Issuer (subject to satisfaction of the Solvency Condition) on the earliest to occur of (a) the next Interest Payment Date on which payment of interest in respect of the Notes is made (other than a voluntary payment by the Issuer of any Arrears of Interest), (b) a Winding-Up or (c) any redemption of the Notes pursuant to Condition 7.

Any actual or anticipated deferral of interest payments will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest deferral provision of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such deferral and may be more sensitive generally to adverse changes in the Issuer's financial condition.

Redemption payments under the Notes must, in certain circumstances, be deferred.

Notwithstanding the expected maturity of the Notes on the Maturity Date, the Issuer must defer redemption of the Notes on the Maturity Date or on any other date set for redemption of the Notes pursuant to Conditions 7(d) and 7(e) (i) in the event that it cannot make the redemption payments in compliance with the Solvency Condition or (ii) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed by the Issuer on such date.

The deferral of redemption of the Notes does not constitute a default under the Notes for any purpose. Where redemption of the Notes is deferred, subject to certain conditions (including satisfaction of the Solvency Condition), the Notes will be redeemed by the Issuer on the earliest of (a) the date falling 10 Business Days following cessation of the Regulatory Deficiency Redemption Deferral Event, (b) the date falling 10 Business Days after the PRA has agreed to the redemption of the Notes or (c) the date on which a Winding-Up occurs.

Any actual or anticipated deferral of redemption of the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the redemption deferral provision of the Notes, including with respect to deferring redemption on the scheduled Maturity Date, the market price of the Notes may be more volatile than the market prices of other debt securities without such deferral feature, including dated securities where redemption on the scheduled Maturity Date cannot be deferred, and the Notes may accordingly be more sensitive generally to adverse changes in the Issuer's financial condition.

Early Redemption.

The Notes have a final maturity date falling on 16 June 2043 and the Issuer is under no obligation to redeem the Notes at any time prior to that date. Noteholders have no right to require the redemption of the Notes. Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Notes for an extended period of time.

Notwithstanding the previous paragraph, the Notes may, subject as provided in Condition 7, at the option of the Issuer, be redeemed before the Maturity Date at their principal amount, together with any Arrears of Interest and any other accrued but unpaid interest to (but excluding) the date of redemption, (i) in the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof, or (ii) following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event.

A Capital Disqualification Event will occur if, as a result of any replacement of or change to (or change to the interpretation by any court or authority entitled to do so of) Solvency II or the Relevant Rules or following the implementation of Solvency II, the Notes cease to qualify in full for recognition in the capital resources of the Issuer and/or the Group. As discussed in greater detail in the section of this Prospectus entitled "*Regulatory Overview*", the European Union is currently developing the Solvency II framework for insurance companies, which, amongst other things, will set out features which any instruments (including subordinated notes) must have in order to qualify as regulatory capital. These features may be different and/or more onerous than those currently applicable to insurance companies in the United Kingdom and contained in the Notes. The details of these features are not expected to be known until the publication of the final official implementation measures (Level 2) implementing Solvency II. The Group understands that there is now insufficient time for Solvency II to enter into force before 1 January 2015 and that it is unlikely to enter into force before 1 January 2016. However, the exact timing of implementation is yet to be decided. See "*Regulatory Overview – Future developments – Solvency II Directive*" for more detail. Accordingly, there is a risk that after the issue of the Notes, a Capital Disqualification Event may occur which would entitle the Issuer, with the approval or consent (or non-objection) of the PRA if then required by the PRA, to redeem the Notes early at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest.

An investor may 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.

Variation or substitution of the Notes without Noteholder consent.

Subject as provided in Condition 7, the Issuer may, at its option and without the consent or approval of the Noteholders, elect to substitute the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Dated Tier 2 Securities at any time in the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof, or following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event.

Restricted remedy for non-payment when due.

The sole remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Notes will be the institution of proceedings for the winding-up of the Issuer and/or proving in any winding-up or in any administration of the Issuer and/or claiming in the liquidation of the Issuer.

Modifications and waivers.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all

Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also provide that, subject to the prior approval or consent or non-objection of the PRA being obtained (so long as it is required), the Trustee may, without the consent of Noteholders, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed in the circumstances described in Condition 14.

Substitution of obligors and transfer of business.

The Conditions provide that the Trustee may, without the consent of the Noteholders, agree to the substitution of another company as principal debtor under the Notes in place of the Issuer in the circumstances described in Condition 13.

In addition, Condition 15 provides that the Issuer may transfer the whole or a substantial part (being any part which represents 50 per cent. or more of the liabilities (where the amount of the liabilities of the Issuer is deemed to mean the same as the technical provisions of the Issuer, net of reinsurance) relating to policies underwritten by the Issuer) of its business, without any prior approval from the Trustee or the Noteholders, to a successor in certain circumstances provided that all the liabilities and obligations of the Issuer as principal obligor under the Issuer are included in the transfer.

No limitation on issuing senior or Pari passu Securities.

There is no restriction on the amount of securities which the Issuer may issue, which securities rank senior to, or *pari passu* with, the Notes. The issue of any such securities may reduce the amount recoverable by Noteholders on a winding-up of the Issuer. In particular, the Notes shall rank junior to the claims of Senior Creditors. Accordingly, in the winding-up of the Issuer and after payment of the claims of their respective senior ranking creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders. The Issuer also intends to issue £850,000,000 5.50 per cent. Subordinated Notes due 2023 substantially contemporaneously with the Issue Date, which are intended to rank *pari passu* with the Notes.

Change of law.

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

Integral multiples.

Investors who hold a principal amount of Notes that is less than the minimum specified denomination will be adversely affected if definitive Notes are subsequently required to be issued. The Notes are issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof. If definitive Notes were to be issued, a holder who holds less than £100,000 in principal amount of the Notes in its account with a relevant clearing system would not be able to receive a definitive Note, and would need to purchase additional Notes such that it holds at least a principal amount of £100,000 in order to receive its Notes in definitive form.

EU Savings Directive.

Under European Commission Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain other persons 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, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. 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 EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment on the Notes were to be made or collected through a Member State which has opted for a withholding system, or through another country that has adopted similar measures, and an amount of or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Foreign account tax compliance withholding.

Pursuant to the foreign account tax compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 ("**FATCA**"), the Issuer and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any notes issued or materially modified on or after the later of (a) 1 January 2014 and (b) the date that is six months after the date on which the final regulations applicable to "foreign passthru payments" are filed in the Federal Register and (ii) any notes which are treated as equity for U.S. federal tax purposes, whenever issued. Under existing guidance, this withholding tax may be triggered on payments on the Notes if (i) the Issuer is a foreign financial institution ("**FFI**") (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide certain information on its account holders (making the Issuer a "**Participating FFI**"), (ii) the Issuer is required to withhold on "foreign passthru payments", and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI to or through which payment on such Notes is made is not a Participating FFI or otherwise exempt from FATCA withholding. The application of FATCA to interest, principal or other amounts paid with respect to the Notes is not clear. In particular, the United Kingdom has entered into an intergovernmental agreement with the United States to help implement FATCA for certain UK entities. The full impact of such an agreement on the Issuer and the Issuer's reporting and withholding responsibilities under FATCA is unclear. The Issuer may be required to report certain information on its U.S. account holders to the government of the UK in order (i) to obtain an exemption from FATCA withholding on payments it receives and/or (ii) to comply with any applicable UK law. It is not yet certain how the United States and the UK will address withholding on "foreign passthru payments" (which may include payments on the Notes) or if such withholding will be required at all.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, none of the Issuer, any paying agent or any other person would, pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE NOTES AND THE HOLDERS IS UNCERTAIN AT THIS TIME. EACH HOLDER OF NOTES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally.

The Notes will have no established trading market when issued, and one may never develop. If a market does develop, it may not be 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. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes in sterling. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of sterling or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency relative to sterling would decrease (1) the Investor’s Currency-equivalent yield on the Notes, (2) the Investor’s Currency equivalent value of the principal payable on the Notes and (3) the Investor’s Currency equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Fixed rate notes are exposed to specific market risks.

The Notes bear a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the “**Market Interest Rate**”). Given the long maturity of the Notes, potential movements in the Market Interest Rate over the life of the Notes are difficult to predict. While the nominal rate of a security with a fixed interest rate is fixed until the redemption of the security, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security is likely to change in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. If the Market Interest Rate falls, the price of a security with a fixed compensation rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Notes and can lead to losses for the Noteholders if they sell the Notes.

Credit ratings may not reflect all risks.

One or more independent credit rating agencies may assign ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the 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 or withdrawn by the rating agency at any time.

Investors must rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer.

The Notes will be represented by the Global Certificate upon issue. The Global Certificate will be registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg and will receive and provide any notices only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the registered holder as nominee for the common depositary for Euroclear or Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

TERMS AND CONDITIONS OF THE NOTES

The following (save for the paragraphs in italics) is the text of the Terms and Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

The £650,000,000 7.00 per cent. Subordinated Notes due 2043 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 17 and forming a single series with the Notes) of Scottish Widows plc (the "**Issuer**") are constituted by a Trust Deed dated 16 April 2013 (the "**Trust Deed**") made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include its successor(s)) as trustee for the holders of the Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 16 April 2013 (the "**Agency Agreement**") made between the Issuer, Citibank, N.A., London Branch, acting as registrar (the "**Registrar**", which expression shall include its successor(s)), Citibank, N.A., London Branch, acting as principal paying agent (the "**Principal Paying Agent**", which expression shall include its successor(s)), the other Agents and the Trustee are available for inspection during normal business hours by the Noteholders at the registered office for the time being of the Trustee (being, as at the Issue Date, Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1 FORM, DENOMINATION AND TITLE

(a) Form and Denomination

The Notes are issued in registered form in amounts of £100,000 and higher integral multiples of £1,000 (referred to as the "**principal amount**" of a Note, and references in these Conditions to "**principal**" in relation to a Note shall be construed accordingly). A note certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar (the "**Register**").

(b) Title

Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**holder**" means the person in whose name a Note is registered in the Register.

2 TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

(a) Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

(b) Delivery of new Certificates

Each new Certificate to be issued upon a transfer of Notes will, within five Business Days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer.

Except in the limited circumstances described in this Prospectus (see "The Global Certificate – Transfers and Exchange"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the balance of Notes not so transferred will, within five Business Days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

(c) Formalities free of charge

Registration of transfer of any Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

(d) Closed periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal, interest or Arrears of Interest on that Note.

(e) Regulations

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3 STATUS OF THE NOTES

(a) Status

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders are subordinated as described in Condition 3(b).

(b) Subordination

If:

(a) at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (A) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (B) do not provide that the Notes or any amount in respect thereof shall thereby become payable); or

(b) an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend,

(the events in (a) and (b) each being a "**Winding-Up**"), the rights and claims of the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed) and the Noteholders against the Issuer in respect of or arising under the Notes and the Trust Deed (including any damages awarded for breach of any obligations thereunder) will be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors but shall rank: (A) at least *pari passu* with all claims of holders of all other subordinated obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 2 Capital (issued on or after Solvency II Implementation) and all obligations which rank, or are expressed to rank, *pari passu* therewith ("**Pari passu Securities**"); and (B) in priority to the claims of holders of (i) all obligations of the Issuer which constitute, and all claims relating to a guarantee or other like or similar undertaking or arrangement given or undertaken by the Issuer in respect of any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital (including, without limitation, by virtue of the operation of any applicable grandfathering provisions) and all obligations which rank, or are expressed to rank, *pari passu* therewith and (ii) all classes of share capital of the Issuer (together, the "**Junior Securities**").

Nothing in this Condition 3(b) or in Condition 3(c) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

(c) Solvency Condition

Other than in the circumstances set out in Condition 3(b) and without prejudice to Condition 10(b), all payments under or arising from the Notes and the Trust Deed (other than payments made to the Trustee in its personal capacity under the Trust Deed) shall be conditional upon the Issuer being solvent at the time for payment by the Issuer, and no amount shall be payable under or arising from the Notes and the Trust Deed (other than payments made to the Trustee in its personal capacity under the Trust Deed) unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter (the "**Solvency Condition**").

For the purposes of this Condition 3(c), the Issuer will be solvent if (i) it is able to pay its debts owed to Senior Creditors and Pari passu Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons who are Junior Creditors). A certificate as to solvency of the Issuer signed by two Directors of the Issuer or, if there is a winding-up or administration of the Issuer, by two authorised signatories of the liquidator or, as the case may be, the administrator of the Issuer shall, in the absence of manifest error be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

(d) Set-off, etc.

By acceptance of the Notes, each Noteholder and the Trustee, on behalf of each Noteholder, will be deemed to have waived any right of set-off or counterclaim that such Noteholder might otherwise have against the Issuer in respect of or arising under the Notes whether prior to or in bankruptcy, winding-up or administration. Notwithstanding the preceding sentence, if any of the rights and claims of any Noteholder in respect of or arising under the Notes are discharged by set-off, such Noteholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, if applicable, the liquidator, trustee, receiver or administrator of the Issuer and, until such time as payment is made, will hold a sum equal to such amount on trust for the Issuer or, if applicable, the liquidator, trustee, receiver or administrator in the Issuer's bankruptcy, winding-up or administration. Accordingly, such discharge will be deemed not to have taken place.

4 INTEREST

(a) Interest Rate

Each Note bears interest on its principal amount at 7.00 per cent. per annum (the "**Interest Rate**") from (and including) the Issue Date in accordance with the provisions of this Condition 4.

Subject to Conditions 3(c) and 5, interest shall be payable on the Notes annually in arrear on each Interest Payment Date, save that the first payment of interest scheduled to be made on 16 June 2013, will be in respect of the period from (and including) the Issue Date to (but excluding) 16 June 2013, in each case as provided in this Condition 4.

(b) Interest Accrual

Interest shall cease to accrue on each Note on the due date for redemption (which due date shall, in the case of deferral of a redemption date in accordance with Condition 7(b), be the latest date to which redemption of the Notes is so deferred) unless payment is improperly withheld or refused, in which event interest shall continue to accrue (in each case, both before and after judgment) as provided in the Trust Deed.

(c) Interest periods

Interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Interest Payment Date.

Interest shall be calculated per £1,000 in principal amount of the Notes (the "**Calculation Amount**") by applying the rate of interest referred to in Condition 4(a) to such Calculation Amount, multiplying the resulting figure by the day count fraction described in the immediately preceding paragraph and rounding the resultant figure to two decimal places (with 0.005 being rounded up).

5 DEFERRAL OF INTEREST

(a) Optional Deferral of Interest

The Issuer may elect in respect of any Optional Interest Payment Date, by notice to the Noteholders, the Trustee and the Principal Paying Agent pursuant to Condition 5(f), to defer payment of all (but not some only) of the interest accrued in respect of the Notes to that date and the Issuer shall not have any obligation to make such payment on that date.

(b) Mandatory Deferral of Interest

Payment of interest on the Notes by the Issuer will be mandatorily deferred on each Mandatory Interest Deferral Date. The Issuer shall notify the Noteholders, the Trustee and the Principal Paying Agent of any Mandatory Interest Deferral Date in accordance with Condition 5(f) (provided that failure to make such notification shall not oblige the Issuer to make payment of such interest, or cause the same to become due and payable, on such date).

A certificate signed by two Directors of the Issuer confirming that (a) a Regulatory Deficiency Interest Deferral Event has occurred and is continuing, or would occur if payment of interest on the Notes were to be made or (b) a Regulatory Deficiency Interest Deferral Event has ceased to occur and/or payment of interest on the Notes would not result in a Regulatory Deficiency Interest Deferral Event occurring, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

(c) No default

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral by the Issuer of any payment of interest:

(i) on an Optional Interest Payment Date in accordance with Condition 5(a);

(ii) on a Mandatory Interest Deferral Date in accordance with Condition 5(b); or

(iii) as a result of the application of the Solvency Condition in accordance with Condition 3(c),

shall not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed.

(d) ***Arrears of Interest***

Any interest on the Notes not paid on an Interest Payment Date as a result of the exercise by the Issuer of its discretion to defer such payment of interest pursuant to Condition 5(a), the obligation of the Issuer to defer such payment of interest pursuant to Condition 5(b) or the operation of the Solvency Condition described in Condition 3(c) shall (without double-counting), to the extent and so long as the same remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest shall not themselves bear interest.

(e) ***Payment of Arrears of Interest by the Issuer***

Any Arrears of Interest may (subject to Condition 3(c) and to satisfaction of the Regulatory Clearance Condition) be paid by the Issuer in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 and in any event will become due and payable by the Issuer (subject, in the case of (i) and (iii) below, to Condition 3(c) and to satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of the following dates:

(i) the next Interest Payment Date on which payment of interest in respect of the Notes is made (other than a voluntary payment by the Issuer of any Arrears of Interest); or

(ii) the date on which a Winding-Up occurs; or

(iii) the date fixed for any redemption or purchase of Notes pursuant to Condition 7 (subject to any deferral of such redemption date pursuant to Condition 7(b)) or Condition 10.

(f) ***Notice of Deferral***

The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in writing in accordance with Condition 12 not less than five Business Days prior to an Interest Payment Date:

(i) if that Interest Payment Date is an Optional Interest Payment Date in respect of which the Issuer elects to defer interest as provided in Condition 5(a) above; or

(ii) if that Interest Payment Date is a Mandatory Interest Deferral Date and specifying that interest will not be paid because a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date, provided that if a Regulatory Deficiency Interest Deferral Event occurs less than five Business Days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral in accordance with Condition 12 as soon as reasonably practicable following the occurrence of such event; or

(iii) if payment of interest is to be deferred on that Interest Payment Date only as a result of the non-satisfaction of the Solvency Condition and specifying the same, provided that if the Issuer becomes aware of such non-satisfaction of the Solvency Condition less than five Business Days prior to an Interest Payment Date, the Issuer shall give notice of the interest deferral in accordance with Condition 12 as soon as reasonably practicable following it becoming so aware.

6 PAYMENTS

(a) Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the relevant Noteholder. Payments of principal, and payments of interest and Arrears of Interest due at the time of redemption of the Notes, will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Save as provided in the previous sentence, interest and Arrears of Interest due for payment on the Notes will be paid to the holder shown on the Register at the close of business on the date (the "**record date**") being the second day before the due date for the relevant payment.

For the purposes of this Condition 6, (i) a Noteholder's registered account means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the Register at the close of business, in the case of principal, and of interest and Arrears of Interest due at the time of redemption of the Notes, on the second Business Day before the due date for payment and, in the case of any other payment of interest and Arrears of Interest, on the relevant record date, and (ii) a Noteholder's registered address means its address appearing on the Register at that time.

(b) Payments subject to applicable laws

All payments on the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer (or its Agents) agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 8.

(c) No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition 6.

(d) Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated on the Business Day preceding the due date for payment or, in the case of a payment of principal, or of a payment of interest or Arrears of Interest due at the time of redemption of the Notes, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

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

(e) Partial payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest in fact paid.

(f) Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided that they will at all times maintain:

(i) a Principal Paying Agent;

(ii) an Agent (which may be the Principal Paying Agent) having a specified office in a European city;

(iii) 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 conform to, such Directive; and

(iv) a Registrar.

Notice of any termination or appointment and of any changes in specified offices of any of the Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7 REDEMPTION, SUBSTITUTION, VARIATION AND PURCHASE

(a) Redemption at Maturity

Subject to Conditions 7(b) and 7(g) and Condition 3(c) and to satisfaction of the Regulatory Clearance Condition, unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 16 June 2043 (the "**Maturity Date**") together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the Maturity Date.

(b) Deferral of redemption date

(i) No Notes shall be redeemed on the Maturity Date pursuant to Condition 7(a) or prior to the Maturity Date pursuant to Condition 7(d) or 7(e) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption is made pursuant to Condition 7 and redemption shall instead be deferred in accordance with the provisions of this Condition 7.

(ii) The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 no later than five Business Days prior to any date set for redemption of the Notes if such redemption is to be deferred in accordance with Condition 7(b)(i), provided that if a Regulatory Deficiency Redemption Deferral Event occurs less than five Business Days prior to the date set for redemption, the Issuer shall give notice of such deferral in accordance with Condition 12 as soon as reasonably practicable following the occurrence of such event.

(iii) If redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 7(d) or 7(e) as a result of Condition 7(b)(i) above, the Issuer shall (subject, in the case of (I) and (II) below only, to Condition 3(c) and to satisfaction of the Regulatory Clearance

Condition) redeem such Notes at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest, upon the earliest of:

I the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased (unless on such 10th Business Day a further Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or redemption of the Notes on such date would result in a Regulatory Deficiency Redemption Deferral Event occurring, in which case the provisions of Condition 7(b)(i) and this Condition 7(b)(iii) will apply mutatis mutandis to determine the due date for redemption of the Notes); or

II the date falling 10 Business Days after the PRA has agreed to the repayment or redemption of the Notes; or

III the date on which a Winding-Up occurs.

The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 no later than five Business Days prior to any such date set for redemption.

If Condition 7(b)(i) does not apply, but redemption of the Notes does not occur on the Maturity Date or, as appropriate, the date specified in the notice of redemption by the Issuer under Condition 7(d) or 7(e) as a result of the Solvency Condition not being satisfied at such time, the Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 as soon as practicable on or following the scheduled redemption date on which the Solvency Condition is not satisfied and such redemption of the Notes has been deferred. Subject to satisfaction of the Regulatory Clearance Condition, such Notes shall be redeemed at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest on the 10th Business Day immediately following the day that (A) the Issuer is solvent for the purposes of Condition 3(c) and (B) the redemption of the Notes would not result in the Issuer ceasing to be solvent for the purposes of Condition 3(c), provided that if on such Business Day specified for redemption a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if the Notes were to be redeemed, then the Notes shall not be redeemed on such date and Conditions 3(c) and 7(b)(iii) shall apply *mutatis mutandis* to determine the subsequent due date for redemption of the Notes. The Issuer shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12 no later than five Business Days prior to any such date set for redemption.

(iv) A certificate signed by two Directors of the Issuer confirming that (A) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if redemption of the Notes were to be made or (B) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and/or redemption of the Notes would not result in a Regulatory Deficiency Redemption Deferral Event occurring, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof, shall be binding on all such persons and the Trustee shall be entitled to rely on such certificate without liability to any person.

(c) ***Deferral of redemption not a default***

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 3(c) or 7(b) will not constitute a default by the Issuer and will not give Noteholders or the Trustee any right to accelerate the Notes or take any enforcement action under the Notes or the Trust Deed.

(d) ***Redemption, variation or substitution for taxation reasons***

Subject to Conditions 7(b)(i) and 7(g) if the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(i) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 12 April 2013, on the next Interest Payment Date either (A) the Issuer would be required to pay additional amounts as provided or referred to in Condition 8; or (B) the payment of interest would be treated as a "distribution" for United Kingdom tax purposes; or (C) in respect of the payment of interest, the Issuer would not to any material extent be entitled to have any attributable loss or non-trading deficit set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist); and

(ii) the effect of the foregoing cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12, the Trustee and the Principal Paying Agent (which notice shall (without prejudice to Conditions 3(c), 7(b) and 7(g)(iii)) be irrevocable), either:

A. redeem all the Notes (but not some only) at any time at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (i) with respect to Condition 7(d)(i)(A), the Issuer would be obliged to pay such additional amounts; (ii) with respect to Condition 7(d)(i)(B), the payment of interest would be so treated as a "distribution"; or (iii) with respect to Condition 7(d)(i)(C), the Issuer would not to any material extent be entitled to have the loss or non-trading deficit set against the profits as provided in (i)(C), in each case were a payment in respect of the Notes then due; or

B. substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Dated Tier 2 Securities, and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 7(g) below and in the definition of Qualifying Dated Tier 2 Securities and subject as provided in Condition 7(f)) agree to such substitution or variation.

Upon expiry of such notice the Issuer shall either redeem (subject to Conditions 3(c), 7(b) and 7(g)(iii)), vary or substitute the Notes, as the case may be.

(e) Redemption, substitution or variation at the option of the Issuer due to a Capital Disqualification Event

(i) Subject to Conditions 7(b)(i) and 7(g), if at any time a Capital Disqualification Event has occurred and is continuing, or the Issuer satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official interpretation of, any applicable law, regulation or other official publication, the same will occur within a period of six months, then the Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12, the Trustee and the Principal Paying Agent (which notice must be given during the Notice Period and shall (without prejudice to Conditions 3(c), 7(b) and 7(g)(iii)) be irrevocable), either:

A. redeem all the Notes (but not some only) at any time at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or

B. substitute at any time all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain Qualifying Dated Tier 2 Securities and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 7(g) below and in the definition of Qualifying Dated Tier 2 Securities, subject as provided in Condition 7(f)) agree to such substitution or variation.

Upon expiry of such notice the Issuer shall either redeem (subject to Conditions 3(c), 7(b) and 7(g)(iii)), vary or substitute the Notes, as the case may be.

(ii) For the purposes of this Condition 7(e), "**Notice Period**" means the period commencing on the date on which the relevant Capital Disqualification Event first occurs (or, as applicable, the date on which the Issuer satisfies the Trustee that the same will occur within a period of six months) and ending on the thirtieth calendar day following satisfaction of the Regulatory Clearance Condition in respect of the redemption, substitution or variation which is the subject of the notice to which the Notice Period relates.

(f) Trustee role on redemption, variation or substitution; Trustee not obliged to monitor

The Trustee shall (at the expense of the Issuer) use its reasonable endeavours to co-operate with the Issuer (including, but not limited to, entering into such documents or deeds as may be necessary) to give effect to substitution or variation of the Notes for or into Qualifying Dated Tier 2 Securities pursuant to Condition 7(d) or Condition 7(e) above provided that the Trustee shall not be obliged to co-operate in or agree to any such substitution or variation of the terms if the securities into which the Notes are to be substituted or are to be varied or the co-operation in such substitution or variation imposes, in the Trustee's opinion, more onerous obligations upon it or exposes it to liabilities or reduces its protections. If the Trustee does not so co-operate or agree as provided above, the Issuer may, subject as provided above, redeem the Notes as provided above.

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists for the purposes of this Condition 7 and will not be responsible to Noteholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 7, it shall be entitled to assume that no such event or circumstance exists.

(g) Preconditions to redemption, variation, substitution and purchases

(i) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 7(d) or 7(e), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that, as the case may be:

A. the requirement referred to in Condition 7(d)(i) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it; or

B. a Capital Disqualification Event has occurred and is continuing as at the date of the certificate or, as the case may be, will occur; and

C. in the case of notice of a redemption before the fifth anniversary of the Issue Date, it would have been reasonable for the Issuer to conclude, judged at the time of issue of the Notes, that the circumstance entitling the Issuer to exercise the right of redemption was unlikely to occur,

and the Trustee shall 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 (it being declared that the Trustee may rely absolutely on such certification without liability to any person).

(ii) In addition, prior to the publication of any notice of redemption before the Maturity Date or any substitution, variation or purchase of the Notes, the Issuer will be required to have complied with the Regulatory Clearance Condition and be in continued compliance with Regulatory Capital Requirements. A certificate from any two Directors to the Trustee confirming such compliance shall be conclusive evidence of such compliance for the purposes of these Conditions (it being declared that the Trustee may rely absolutely on such certification without liability to any person).

(iii) The Issuer shall not redeem any Notes or purchase any Notes unless at the time of such redemption, payment or purchase it is, and will immediately thereafter remain (i) solvent (as such term is described in Condition 3(c)) and (ii) in compliance with all Regulatory Capital Requirements applicable to it. A certificate from any two Directors to the Trustee confirming such compliance for the purposes of these Conditions shall be conclusive evidence of such compliance (it being declared that the Trustee may rely absolutely on such certification without liability to any person).

(iv) If a redemption of the Notes in accordance with Condition 7(d) or 7(e) is to occur prior to 16 April 2018, any such redemption will only be made in compliance with the Relevant Rules and on condition that the Notes are replaced with capital of the same or higher quality. A certificate from any two Directors of the Issuer to the Trustee confirming such compliance shall be conclusive evidence of such compliance and the Trustee may rely absolutely on such certification without liability to any person.

(h) Compliance with stock exchange rules

In connection with any substitution or variation of the Notes in accordance with Condition 7(d) or Condition 7(e), the Issuer shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading, and (for so long as the Notes are listed on the Official List of the FCA in its capacity as competent authority under the FSMA and admitted to trading on the London Stock Exchange's regulated market) shall publish a supplement in connection therewith if the Issuer is required to do so in order to comply with section 87G of the FSMA.

(i) Purchases

Subject to Condition 7(g), the Issuer or any of the Issuer's subsidiaries may at any time purchase Notes in any manner and at any price. All Notes purchased by or on behalf of the Issuer or any Subsidiary of the Issuer may be held, reissued, resold or, at the option of the Issuer and the relevant purchaser, surrendered for cancellation to the Principal Paying Agent.

(j) Cancellations

All Notes redeemed or substituted by the Issuer pursuant to this Condition 7, and all Notes purchased and surrendered for cancellation pursuant to Condition 7(i), will forthwith be cancelled. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(k) Notices Final

Subject to Conditions 3(c), 7(b) and 7(g)(iii), upon the expiry of any notice of redemption as is referred to in this Condition 7 the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of the relevant Condition.

8 TAXATION

(a) Payment without withholding

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

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

(ii) *Lawful avoidance of withholding*: to, or to a third party on behalf of, a Noteholder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the Certificate representing the Note is presented for payment; or

(iii) *Surrender more than 30 days after the Relevant Date*: in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days; or

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

"**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

(b) Additional Amounts

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 8 or under any undertakings given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed.

9 PRESCRIPTION

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

10 EVENTS OF DEFAULT

(a) Rights to institute and/or prove in a winding-up of the Issuer

The right to institute winding-up proceedings in respect of the Issuer is limited to circumstances where a payment of principal, interest or other amount in respect of the Notes by the Issuer under the Notes or the Trust Deed has become due and is not duly paid. For the avoidance of doubt (without prejudice to Condition 10(b)), no amount shall be due from the Issuer in circumstances where payment of such amount could not be made in compliance with the Solvency Condition or is deferred by the Issuer in accordance with Condition 5(a) or 7(b).

If:

(i) default is made by the Issuer for a period of 14 days or more in the payment of any interest due in respect of the Notes or any of them or for a period of 7 days or more in the payment of principal due in respect of the Notes or any of them; or

(ii) a Winding-Up occurs,

the Trustee at its discretion may, and if so requested by Noteholders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to it having been indemnified and/or secured and/or prefunded to its satisfaction):

A. in the case of (i) above, institute proceedings for the winding-up of the Issuer and prove in the winding-up; and/or

B. in the case of (ii) above, prove in the winding-up or administration of the Issuer and/or claim in the liquidation of the Issuer,

but (in either case) may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed. No payment in respect of the Notes or the Trust Deed may be made by the Issuer pursuant to this Condition 10(a), nor will the Trustee accept the same, otherwise than during or after a winding-up of the Issuer or after an administrator of the Issuer has given notice that it intends to declare and distribute a dividend, unless the Issuer has given prior written notice (with a copy to the Trustee) to, and received no objection from, the PRA which the Issuer shall confirm in writing to the Trustee.

(b) Amount payable on a winding-up or administration

Upon the occurrence of a Winding-Up (including, for the avoidance of doubt, a winding-up initiated pursuant to Condition 10(a)(i)), the Trustee at its discretion may, and if so requested by Noteholders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to it having been indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at the amount equal to their principal amount together with any Arrears of Interest and any other accrued and unpaid interest. Claims against the Issuer in respect of such amounts will be subordinated in accordance with Condition 3(b).

(c) Enforcement

Without prejudice to Condition 10(a) or 10(b), the Trustee may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed or the Notes (other than any payment obligation of the Issuer under or arising from the Notes or the Trust Deed, including any damages awarded for breach of any obligations thereunder) but in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it. Nothing in this Condition 10(c) shall, however, prevent the Trustee, subject to Condition 10(a), instituting proceedings for the winding-up of the Issuer and/or proving in any winding-up or administration of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligation of the Issuer where such payment obligation arises from the Notes or the Trust Deed (including, without limitation, payment of any principal, interest or Arrears of Interest in respect of the Notes or any damages awarded for breach of any obligations under the Notes or the Trust Deed).

(d) Entitlement of Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 10(a), 10(b) or 10(c) above against the Issuer to enforce the terms of the Trust Deed, the Notes or any other action under or pursuant to the Trust Deed unless (i) it shall have been so directed by an

Extraordinary Resolution of the Noteholders or requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(e) Right of Noteholders

No Noteholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 10.

(f) Extent of Noteholders' remedy

No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

11 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 NOTICES

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

13 SUBSTITUTION OF ISSUER

Subject to the Issuer giving at least one month's notice to, and receiving no objection from, the PRA (or such shorter period of notice as the PRA may accept and so long as there is a requirement to give such notice), the Trustee may agree with the Issuer, without the consent of the Noteholders to the substitution of (a) a successor in business (as defined below) of the Issuer or (b) a Subsidiary or parent company of the Issuer or (c) a Subsidiary of the parent company of the Issuer, in each case in place of the Issuer; (each such substitute being hereinafter referred to as the "**Substitute Obligor**") provided that in each case:

A. a trust deed or some other form of undertaking, supported by one or more legal opinions, is executed by the Substitute Obligor in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed and the Notes, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substitute Obligor has been named in the Trust Deed and the Notes, as the principal debtor in place of the Issuer of any previous Substitute Obligor, as the case may be;

B. two directors (or other officers acceptable to the Trustee) of the Substitute Obligor certify to the Trustee that (x) the Substitute Obligor has obtained all necessary governmental and regulatory approvals and consents necessary for its assumptions of the duties and liabilities as obligor under the Trust Deed and the Notes in place of the Issuer, or as the case may be, any previous Substitute Obligor and (y) such approvals and consents are at the time of substitution in full force and effect (it being declared that the Trustee may rely absolutely on such certification without liability to any person);

C. two directors (or other officers acceptable to the Trustee) of the Substitute Obligor certify that the Substitute Obligor is solvent at the time at which the substitution is proposed to be in effect, and immediately thereafter (it being declared that the Trustee may rely absolutely on such certification, without liability to any person, and shall not be bound to have regard to the financial condition, profits or prospects of the Substitute Obligor or to compare the same with those of the Issuer or (as the case may be) any previous Substitute Obligor);

D. (without prejudice to the generality of sub-paragraph (A) above) the Trustee may, in the event of such substitution agree, without the consent of the Noteholders, to a change in the law governing the Trust Deed and/or the Notes if in the opinion of the Trustee such change would not be materially prejudicial to the interests of the Noteholders;

E. if the Substitute Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory of the taxing jurisdiction of which (or to any such authority of or in which) the Issuer is subject generally (the "**Original Territory**"), the Substitute Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 8 with the substitution for or, as the case may be, addition to the references in that Condition and in Condition 7(d) to the Original Territory of references to the Substituted Territory whereupon the Trust Deed and the Notes will be read and construed accordingly;

F. if the Substitute Obligor is a special purpose vehicle, the payment obligations of such Substitute Obligor under the Notes are guaranteed on an equivalent subordinated basis by (i) a Subsidiary or parent company of the Issuer or (ii) a Subsidiary of the parent company of the Issuer which carries on a regulated insurance business.

G. the Issuer and the Substitute Obligor comply with such other requirements as the Trustee may direct in the interests of the Noteholders; and

H. without prejudice to the rights of reliance of the Trustee under sub-paragraph (C) above, the Trustee shall be satisfied that the interests of the Noteholders will not be materially prejudiced by any substitution proposed pursuant to this Condition (including, without limitation, in relation to the maintenance of the same or a better rating in respect of the Notes where the Notes are rated by an internationally recognised rating agency (but only where such rating was assigned at the request or with the co-operation of the Issuer) immediately prior to such substitution).

As used above, "**successor in business**" means in relation to the Issuer any company which as a result of any amalgamation, merger or reconstruction, beneficially owns the whole or substantially the whole of the undertaking, property and assets owned by the Issuer prior to such amalgamation, merger, reconstruction or agreement coming into force and carries on as successor to the Issuer the whole or substantially the whole of the business carried on by the Issuer immediately prior thereto.

14 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

(a) Meetings of Noteholders

Except as provided herein, any modification to these Conditions or any provisions of the Trust Deed will be subject to the Regulatory Clearance Condition.

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Trustee or Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Trust Deed also provides that a written resolution executed by or on behalf of the holders of 90 per cent. in principal amount of the Notes outstanding who would have been entitled to vote upon it if it had been proposed at a meeting at which they were present shall take effect as if it were an Extraordinary Resolution.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in connection with the substitution or variation of the Notes pursuant to Condition 7(d) or 7(e) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer pursuant to Condition 13.

(b) Modification, waiver and authorisation

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

(c) Trustee to have regard to interests of Noteholders as a class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution of obligor), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders 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.

(d) Notification to the Noteholders

Any modification, waiver, authorisation or substitution shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

15 TRANSFER OF BUSINESS OF THE ISSUER

The Issuer may transfer the whole or a substantial part of its business (including its obligations under the Notes) without any prior approval from the Trustee or the Noteholders:

(a) to another body in accordance with Part VII of the FSMA (a "**Successor**"). If the Issuer transfers all or a substantial part of its business to a Successor in accordance herewith, the Issuer shall procure that there be included in the assets and liabilities to be transferred to such Successor all the liabilities and obligations of the Issuer as principal obligor under the Notes and references in these Conditions and the Trust Deed to the Issuer shall be construed accordingly; and

(b) to a single legal entity where such transfer is pursuant to the exercise by the PRA or the UK Financial Services Compensation Scheme ("**FSCS**") of its powers in connection with any applicable law, rule or regulation. If the Issuer is required to make such a transfer, the Issuer shall procure that there be included in the transfer all the liabilities and obligations of the Issuer as principal obligor under the Notes and references in these Conditions and the Trust Deed to the Issuer shall be construed accordingly.

In this Condition 15, "**a substantial part**" means any part which, as at the most recent valuation date by reference to the latest published financial statements of the Issuer and as certified in writing by two Directors of the Issuer to the Trustee, represents 50 per cent. or more of the liabilities (where the amount of the liabilities of the Issuer is deemed to mean the same as the technical provisions of the Issuer, net of reinsurance) relating to policies underwritten by the Issuer.

16 INDEMNIFICATION AND PROTECTION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

(a) Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

(b) Trustee contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (i) to enter into business transactions with the Issuer and/or any of the Issuer's subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

(c) ***Regulatory Clearance Condition***

Wherever in these Conditions and/or the Trust Deed there is a requirement for the Regulatory Clearance Condition to be satisfied, the Trustee shall be entitled to assume without enquiry that such condition has been satisfied unless notified in writing to the contrary by the Issuer.

17 FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding Notes. Any further notes which are to form a single series with the outstanding Notes may (with the consent of the Trustee) be constituted by a deed supplemental to the Trust Deed.

18 GOVERNING LAW AND JURISDICTION

(a) ***Governing law***

The Trust Deed and the Notes, and any non-contractual obligations arising out of or in connection with the Trust Deed and/or the Notes are governed by, and shall be construed in accordance with, English law, save in respect of Conditions 3(b) and 3(d) and the relevant provisions of the Trust Deed, which shall be governed by, and construed in accordance with, Scots law.

(b) ***Jurisdiction***

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with any Notes ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed, the Issuer has irrevocably submitted to the jurisdiction of such courts. This submission is made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

19 RIGHTS OF THIRD PARTIES

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

20 DEFINED TERMS

In these Conditions:

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

"**Agents**" means the Registrar, the Principal Paying Agent and the other Paying Agents appointed from time to time under the Agency Agreement;

"**Arrears of Interest**" has the meaning given in Condition 5(d);

"**Assets**" means the unconsolidated gross assets of the Issuer as shown in the latest published audited balance sheet of the Issuer, but adjusted for subsequent events, all in such manner as the Directors may determine;

"**Business Day**" means (i) except for the purposes of Condition 2 and 6(d), a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for general business in London, (ii) for the purposes of Condition 2, a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located and (iii) for the purpose of Condition 6(d), a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in London and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered;

"**Capital Disqualification Event**" is deemed to have occurred if, as a result of any replacement of or change to (or change to the interpretation by any court or authority entitled to do so of) the Relevant Rules:

(a) the Notes are no longer capable of counting; or

(b) in the circumstances where such capability derives only from transitional or grandfathering provisions under the Relevant Rules, as appropriate, less than 100 per cent. of the principal amount of the Notes outstanding at such time is capable of counting,

as Tier 2 Capital for the purposes of the Issuer, the Insurance Group, or any insurance or reinsurance undertaking within the Insurance Group whether on a solo, group or consolidated basis (except where any such non-qualification is only as a result of any applicable limitation on the amount of such capital other than a transitional or grandfathering provision as provided in (b) above);

"**Certificate**" has the meaning given in Condition 1(a);

"**Companies Act**" means the Companies Act 2006 (as amended or re-enacted from time to time);

"**Compulsory Interest Payment Date**" means any Interest Payment Date (i) in respect of which during the period of six months ending on such Interest Payment Date a Compulsory Interest Payment Event has occurred, (ii) on which the Solvency Condition is satisfied and (iii) which is not a Mandatory Interest Deferral Date;

"**Compulsory Interest Payment Event**" means:

(a) any declaration, payment or making of a dividend or distribution by the Issuer to its ordinary shareholders; or

(b) any declaration, payment or making of a dividend, distribution or coupon on any other Junior Securities of the Issuer, except where such dividend, distribution or coupon was required to be declared, paid or made under, or in accordance with the terms of, such Junior Securities of the Issuer; or

(c) any declaration, payment or making of a dividend, distribution or coupon on any Pari passu Securities of the Issuer, except where such dividend, distribution or coupon was required to be declared, paid or made under, or in accordance with the terms of, such Pari passu Securities of the Issuer; or

(d) any repurchase by the Issuer of its ordinary shares for cash, provided such repurchase is not made in the ordinary course of business of the Issuer in connection with any share option scheme or share ownership scheme for management or employees of the Issuer or management or employees of affiliates of the Issuer; or

(e) any redemption or repurchase by the Issuer or any Subsidiary of the Issuer of any other Junior Securities of the Issuer for cash, except a redemption required to be effected under, or in accordance with the terms of, such Junior Securities of the Issuer; or

(f) any redemption or repurchase by the Issuer or any Subsidiary of the Issuer of any Pari passu Securities of the Issuer for cash, except a redemption required to be effected under, or in accordance with the terms of, such Pari passu Securities of the Issuer,

provided that if at any time, and for so long as, the existence of any of the Compulsory Interest Payment Events at paragraphs (b), (c), (e) and/or (f) above would result in the Notes or any part thereof ceasing to be eligible to qualify as Lower Tier 2 Capital (or, following Solvency II Implementation, Tier 2 Capital) under Solvency II or the Relevant Rules, each of those paragraphs which would cause such result shall have no effect and the circumstances described therein shall not constitute a Compulsory Interest Payment Event;

"**Directors**" means the directors of the Issuer;

"**Extraordinary Resolution**" has the meaning given in the Trust Deed;

"**Financial Conduct Authority**" or "**FCA**" means the Financial Conduct Authority or its successor;

"**FSMA**" means the Financial Services and Markets Act 2000 (as amended or re-enacted from time to time);

"**Insurance Group**" means the Issuer and the Issuer's subsidiaries;

"**Interest Payment Date**" means 16 June in each year, commencing 16 June 2013;

"**Interest Period**" means the period from (and including) one Interest Payment Date (or in the case of the first Interest Period, from the Issue Date) to (but excluding) the next (or in the case of the first Interest Period, the first) Interest Payment Date;

"**Interest Rate**" has the meaning given in Condition 4(a);

"**Issue Date**" means 16 April 2013;

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

"**Junior Creditors**" means creditors of the Issuer whose claims rank, or are expressed to rank, junior to the claims of the Noteholders (including holders of Junior Securities of the Issuer);

"**Junior Securities**" has the meaning given in Condition 3(b);

"**Liabilities**" means the unconsolidated gross liabilities of the Issuer as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events, all in such manner as the Directors may determine;

"**London Stock Exchange**" means the London Stock Exchange plc;

"**Lower Tier 2 Capital**" has the meaning given by the PRA from time to time;

"**Mandatory Interest Deferral Date**" means each Interest Payment Date in respect of which a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest was made on such Interest Payment Date;

"**Maturity Date**" means 16 June 2043;

"**Member State**" means a member of the European Economic Area;

"**Noteholder**" has the meaning given in Condition 1(b);

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

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

"**Optional Interest Payment Date**" means any Interest Payment Date other than a Compulsory Interest Payment Date or a Mandatory Interest Deferral Date;

"**Original Territory**" has the meaning given in Condition 13;

"**Pari passu Creditors**" means creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders (including holders of Pari passu Securities of the Issuer);

"**Pari passu Securities**" has the meaning given in Condition 3(b);

"**Paying Agents**" means the Principal Paying Agent and the Registrar (and such term shall include any successor, replacement or additional paying agents appointed under the Agency Agreement);

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

"**Prudential Regulation Authority**" or "**PRA**" means the Prudential Regulation Authority or such successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Issuer and/or the Insurance Group;

"**Qualifying Dated Tier 2 Securities**" means securities issued directly or indirectly by the Issuer that:

(a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Issuer in consultation with an independent investment bank of international standing, and provided that a certification to such effect (including as to the consultation with the independent investment bank and in respect of the matters specified in (1) to (7) below) signed by two Directors shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely without liability to any person) prior to the issue of the relevant securities) provided that they shall (1) contain terms which comply with then current requirements of the PRA in relation to Tier 2 Capital (or, at any time prior to Solvency II Implementation, Lower Tier 2 Capital); (2) bear at least the same rate of interest as that applying to the Notes and preserve the Interest Payment Dates; (3) contain terms providing for mandatory deferral of payments of interest and/or principal only if such terms are not materially less favourable to an investor than the mandatory deferral provisions contained in the terms of the Notes; (4) have the same, or a more senior, ranking as the Notes; (5) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; (6) not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares; and (7) preserve any existing rights under these Conditions to any accrued interest, any Arrears of Interest and any other amounts payable under the Notes which, in each case, has accrued to Noteholders and not been paid; and

(b) are listed or admitted to trading on the London Stock Exchange's regulated market (for the purposes of Directive 2004/39/EC) or such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

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

"**Register**" has the meaning given in Condition 1(a);

"**Registrar**" has the meaning given in the preamble to these Conditions;

"**Regulatory Capital Requirements**" means any applicable capital resources requirement or applicable overall financial adequacy rule required by the PRA, as such requirements or rule are in force from time to time;

"**Regulatory Clearance Condition**" means, in respect of any proposed act on the part of the Issuer, the PRA having approved or consented to, or having been given due notification of and having not within any applicable time-frame objected to, such act (in any case only if and to the extent required by the PRA or any applicable rules of the PRA at the relevant time);

"**Regulatory Deficiency Interest Deferral Event**" means any event which (including, without limitation, any event which causes the Solvency Capital Requirement applicable to the Issuer, the Insurance Group or any member of the Insurance Group to be breached and such breach is an event which) under Solvency II and/or under the Relevant Rules would require the Issuer to defer payment of interest in respect of the Notes (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

"**Regulatory Deficiency Redemption Deferral Event**" means any event which (including, without limitation, any event which causes the Solvency Capital Requirement applicable to the Issuer, the Insurance Group or any member of the Insurance Group to be breached and such breach is an event which) under Solvency II and/or under the Relevant Rules would require the Issuer to defer or suspend repayment or redemption of the Notes (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions);

"**Relevant Date**" has the meaning given in Condition 8;

"**Relevant Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest (including Arrears of Interest) on the Notes;

"**Relevant Rules**" means any legislation, rules or regulations (whether having the force of law or otherwise) applying to the Issuer or any insurance or reinsurance undertaking within the Insurance Group from time to time relating to the characteristics, features or criteria of own funds or capital resources and, for the avoidance of doubt and without limitation to the foregoing, includes any legislation, rules or regulations relating to such matters which are supplementary or extraneous to the obligations imposed on Member States by Solvency I or the Solvency II Directive;

"**Senior Creditors**" means (a) creditors of the Issuer who are unsubordinated creditors of the Issuer and (b) other creditors of the Issuer whose claims are, or are expressed to be, subordinated to the claims of other creditors of the Issuer (other than those whose claims constitute (or relate to a guarantee or other like or similar undertaking or arrangement given by the Issuer in respect of any obligation of any other person which constitute), or would but for any applicable limitation on the amount of any such capital, constitute Tier 1 Capital, Upper Tier 2 Capital (issued prior to Solvency II Implementation), Lower Tier 2 Capital (issued prior to Solvency II Implementation), or Tier 2 Capital (issued on or after Solvency II Implementation) or whose claims otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Noteholders);

"**Solvency Capital Requirement**" means the Solvency Capital Requirement or the group Solvency Capital Requirement referred to in, or any other capital requirement howsoever described in, Solvency II or the Relevant Rules;

"**Solvency Condition**" has the meaning given in Condition 3(c);

"**Solvency I**" means the directives adopted by the Parliament and Council of the European Union relating to the taking-up and pursuit of insurance business within the European Union (excluding the Solvency II Directive) and including, without limitation, Directive 73/239/EEC of the European Union (as amended) and Directive 98/78/EC of the European Union (as amended) on the supplementary supervision of insurance undertakings in an insurance group;

"**Solvency II**" means the Solvency II Directive and any implementing measures adopted pursuant to the Solvency II Directive (for the avoidance of doubt, whether implemented by way of regulation or by further directives or otherwise);

"**Solvency II Directive**" means Directive 2009/138/EC of the European Union (as amended) on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) and which must be transposed by Member States pursuant to Article 309 of Directive 2009/138/EC;

"**Solvency II Implementation**" means the implementation by the PRA, or other direct application to the Issuer and/or the Insurance Group, of Solvency II (or, if later, the coming into effect of the same with respect to the Issuer and/or the Insurance Group);

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

"**Subsidiary**" has the meaning given under section 1159 of the Companies Act;

"**Substitute Obligor**" has the meaning given in Condition 13;

"**Substituted Territory**" has the meaning given in Condition 13;

"**Successor**" has the meaning given in Condition 15;

"**successor in business**" has the meaning given in Condition 13;

"**Tier 1 Capital**" has the meaning given by the PRA from time to time;

"**Tier 2 Capital**" has the meaning given by the PRA from time to time;

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

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

"**UK Listing Authority**" means the FCA in its capacity as competent authority under the Financial Services and Markets Act 2000;

"**Upper Tier 2 Capital**" has the meaning given by the PRA from time to time; and

"**Winding-Up**" has the meaning given in Condition 3(b).

THE GLOBAL CERTIFICATE

The following provisions apply to the Notes whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions.

1 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

2 Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer or any of the Issuer's other subsidiaries will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders.

3 Payments

Payments of principal and interest in respect of Notes represented by the Global Certificate will be made to the registered holder of the Global Certificate, provided that if no further payment falls to be made in respect of the Notes, payment will only be made against surrender of the Global Certificate to, or to the order of, the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant clearing system's rules and procedures.

All payments in respect of the Notes whilst they are represented by the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday (inclusive) except 25 December and 1 January.

4 Notices

So long as all the Notes are represented by the Global Certificate and it is held on behalf of a clearing system, notices to Noteholders will be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for notification as required by the Conditions. A notice will be deemed to have been given to accountholders on the first Business Day following the day on which such notice is sent to the relevant clearing system for delivery to entitled accountholders.

Whilst any of the Notes held by a Noteholder are represented by the Global Certificate, notices to be given by such Noteholder will be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Trustee and Euroclear and/or Clearstream, Luxembourg may approve for this purpose.

5 Transfers and Exchange

The following will apply in respect of transfers of the Notes held in Euroclear or Clearstream, Luxembourg or another clearing system. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by the Global Certificate pursuant to Condition 2 may only be made in part:

(a) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(b) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or

(c) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (a) or (b) above, the Relevant Nominee has given the Registrar not less than 30 days' notice at its specified office of the Relevant Nominee's intention to effect such transfer.

6 Trustee's Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of, or registered in the name of the Relevant Nominee, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

7 Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for a clearing system, then:

(a) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum, as defined in the Trust Deed, was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders whether or not they participated in such Electronic Consent. The Principal Paying Agent shall confirm the result of voting on any Electronic Consent in writing to the Issuer and the Trustee (in a form satisfactory to the Trustee) (which confirmation may be given by email), specifying (as of the deadline for the

Electronic Consent): (i) the outstanding principal amount of the Notes and (ii) the outstanding principal amount of the Notes in respect of which consent to the resolution has been given in accordance with this provision. The Issuer and the Trustee may rely and act without further enquiry on any such confirmation from the Principal Paying Agent and shall have no liability or responsibility to anyone as a result of such reliance or action. The Trustee shall not be bound to act on any Electronic Consent in the absence of such a confirmation from the Principal Paying Agent in a form satisfactory to it; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and that such holding has not altered prior to the effective date of the resolution. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

It is intended that the net proceeds of the issuance of the Notes will be used by the Issuer and/or made available to its parent companies to fund the repayment of subordinated intra-group debts owed to a banking subsidiary of the Issuer's ultimate parent company, LBG.

To the extent any net proceeds are not used to facilitate such actions in relation to capital, the remaining net proceeds will be applied for the general corporate purposes of the Group.

The expenses in connection with the transaction are expected to amount to £5040.

THE ISSUER AND THE GROUP

Description of the Group

General

The Issuer is the parent company of those of the Lloyds Banking Group group of companies which write Life, Pensions and Investment ("**LP&I**") business. The Issuer and its subsidiaries are referred to below as the "**Group**". The main activity of the Group is the provision of products and services in relation to long term insurance, savings and investment products and associated investment activities, principally in the United Kingdom. The Group is a leading provider of these products and the key markets in which the Group is active with respect to new business are protection, corporate pensions and annuities. The Group also has material back books of business in the UK (mainly pensions, investment bond, OEIC and with-profits policies) and in Europe, principally German, business written through the branch operation within CMIG. A relatively small amount of new business continues to be written in Europe through this branch operation.

The Issuer is a wholly owned, indirectly-held, subsidiary of LBG. The shares of LBG are admitted to trading on the London Stock Exchange's main market for listed securities. The Group forms part of the Insurance Division of the Lloyds Banking Group. The Insurance Division also includes the Lloyds Banking Group's General Insurance Business and European LP&I business. The entities which provide products in these markets are subsidiaries of Scottish Widows Group Limited and do not form part of the Group in respect of which consolidated financial information is being presented in this Prospectus. Organisational structure charts setting out the position of the Group within the Lloyds Banking Group structure, as well as the main subsidiaries within the Group, are set out on page 80.

The Issuer is incorporated and registered in Scotland under the Companies Acts as a public limited company, registered number SC199549 (incorporated 1 September 1999). The Issuer's registered office is 69 Morrison Street, Edinburgh, EH3 8YF and its telephone number is +44 131 655 6000.

The Group's history

The Scottish Widows' Fund and Life Assurance Society (the "**Society**") was founded as Scotland's first mutual life office in 1814 and was incorporated in Scotland under statute in 1861. In February 2000, the Court of Session in Edinburgh sanctioned a Scheme of Transfer (the "**Scheme**") under the terms of which the Society demutualised and transferred its business to two newly incorporated subsidiaries of LBG: the majority of the long term business transferred to the Issuer and the balance, constituting annuity business, transferred to Scottish Widows Annuities Limited ("**SWA**"), a subsidiary of the Issuer.

The acquisition positioned the then Lloyds TSB Group plc, a leading provider of banking services in the UK, as one of the leading suppliers of long term savings and protection products in the UK.

In January 2009, LBG acquired HBOS plc. On completion of the acquisition, Lloyds TSB Group plc changed its name to "Lloyds Banking Group plc" and the Issuer and its current subsidiaries accordingly became part of the Insurance Division of the re-named Lloyds Banking Group.

On 1 July 2011, the Issuer acquired the entire share capital of CMIG from a fellow subsidiary of LBG. Accordingly, each of (i) the Issuer's audited consolidated financial statements for the year ended 31 December 2011 and (ii) the 2011 comparative column as set out in the audited consolidated financial statements for the year ended 31 December 2012, as incorporated by reference into this Prospectus, reflect the financial year 2011 results of operations and cash flows of CMIG and its subsidiaries for the period from 1 July 2011 to 31 December 2011 only.

Group strategy

The Group's strategy is to drive returns through being the best, relationship-focused, provider of long term savings, protection and investment products for customers; providing simple, trusted, value for money propositions, accessible through the network of Lloyds Banking Group and its intermediary and direct sales channels. The Group is focused on helping its customers to protect themselves today whilst preparing for a secure financial future.

The Group's strategic focus is to:

- Maximise the value of its position within the Lloyds Banking Group, and leverage it to grow its bancassurance distribution – and compete selectively elsewhere;
- Build strong and enduring relationships with customers, intermediaries and colleagues across the Lloyds Banking Group;
- Grow income through selective participation and protect its competitive position and the value of its in-force business;
- Pursue value over volume as the Group grows a business that is focused on developing long-term relationships with its customers, leveraging opportunities to migrate customers with maturing policies into new investment propositions;
- Strengthen the Group's leading position in the growing retirement savings market and expand its participation in the annuities market;
- Build value through creating one insurance business within the Lloyds Banking Group, leveraging Lloyds Banking Group economies of scale;
- Maintain a strong balance sheet and achieve capital efficiencies, realising synergies between insurance and the rest of the Lloyds Banking Group;
- Simplify its operational systems and processes to improve customer experience and drive and maintain cost advantage; and
- Maintain its financial strength and resilience, maximising opportunities arising under Solvency II.

Business of the Group

Overview

The Group is one of the UK's leading life and pensions and investment providers with £112.3 billion of assets under management as at 31 December 2012.

It offers a wide range of life insurance products such as annuities, pensions, protection and investment products through the Lloyds Banking Group bank branch network and Wealth channel, Independent Financial Advisers and direct sales operations. Policies written by the Group include a small amount of new business written into the two With Profits Funds operated by the Group. The Group also has a material back book of European, principally German, business written through the branch operation within CMIG. A relatively small amount of new business continues to be written in Europe through this branch operation.

The Issuer also reinsures business with related undertakings and with insurance entities external to the Group. This includes the majority of the pensions linked business and new protection business, which are reinsured to the Issuer's subsidiaries Scottish Widows Unit Funds Limited ("**SWUF**") and CMIG respectively.

Market position, brands and products

Scottish Widows is one of the most respected and recognised brands in the intermediary market. The Group has won several industry awards including "Best Stakeholder Pension Provider" for the third year running at the Moneywise 2012 Pension Awards, "Best Group Pension Provider" in the Corporate Advisor Awards and "Best Personal Pensions Provider" in the Professional Adviser Awards.

The Group distributes its products via the Lloyds Banking Group bancassurance network and intermediaries as well as direct to consumers using the Lloyds TSB, Halifax, Bank of Scotland and Scottish Widows brands; and in Europe via the branch business operation of the Clerical Medical Investment Group under the Clerical Medical brand.

The Group's main products include:

- Pensions – a means of providing income in retirement for an individual and possibly his or her dependants. Pension products include personal and group pensions, stakeholder pensions and income drawdown.

- Annuities – a type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are asset accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked.

- Protection – an insurance contract that protects the policyholder or his or her dependants against financial loss on death or ill-health. The product ranges include term assurance, mortgage life insurance, flexible whole of life and critical illness cover.

- Bonds and savings – accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. The product ranges include single premium investment bonds, regular premium savings plans, mortgage endowment products and funding agreements.

- Investment sales – investment sales comprised of retail sales of mutual fund type products such as unit trusts, individual savings accounts and open ended investment companies.

- With-profits – benefits accruing from with-profits policies are designed to provide a smoothed return to policyholders who hold their policies to maturity through a mix of annual and final (or terminal) bonuses added to guaranteed basic benefits. With-profits products relate primarily to pensions and savings business.

The Group's focus is on investing to build profit streams in areas where it has market scale and competitive advantage, leveraging synergies within the wider Lloyds Banking Group. The Group's Bancassurance channel builds on strong links to banking and mortgage businesses under the Lloyds TSB, Halifax and Bank of Scotland brands with approximately one third of new business income coming from protection sales to retail bank customers.

The rest of the Group's new business derives from its intermediary and direct channels under the iconic Scottish Widows brand, focusing on retirement savings, covering both the provision of annuities and pensions. In 2012, the Group was one of the market leaders in corporate pensions. The Group's back book principally comprises managed assets of (as at 31 December 2012) £65 billion of unit linked business, £22 billion of With Profits Business, £12 billion of OEICs and £11 billion of annuity business which provides a strong stream of on-going profits.

The Group is committed to strengthening its leading position in the growing retirement savings market. In corporate pensions, strong activity in the run up to RDR resulted in 23 per cent. growth in present value of new business premiums (PVNBP) in 2012, with auto-enrolment expected to drive further strength over the next three to five years. In annuities, the Group is developing its propositions to compete more effectively in an increasingly open market. The Group launched its enhanced annuities pilot in the last quarter of 2012 and expects this to be fully rolled out by mid-2013. This is the first step in expanding the Group's participation in the annuity market, supported by the Group's investment strategy that resulted in the purchase of over £1 billion of attractive, high yielding, long-dated assets to match long duration insurance liabilities within credit and liquidity risk appetite limits. Looking forward, the Group sees significant potential to serve the retirement needs of Lloyds Banking Group's retail bank customers, many of whom may no longer have easy access to independent financial advice at retirement.

The Group also provides individual pensions and other investment products. While these are not a strategic priority of the Group, they nonetheless represent a significant book of business.

In the financial year ended 31 December 2012, the Group wrote the following new business analysed by present value of new life business premiums (PVNBP) and new business margin on an EEV Basis:

Analysis by product	**PVNBP £million**(1)	**New Business Margin on an EEV Basis**
Corporate Pensions	5,427	2.7%
Individual Pensions	1,580	1.2%
Retirement Income	729	9.8%
Protection	554	>15%
Investments(2)	512	1.6%
Total(2)	8,946	3.9%

Note:

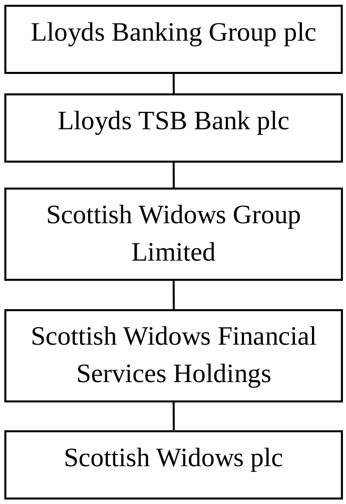
(1) Excludes OEICs of £1,059 million.

(2) The aggregate PVNBP sales figure also includes other lines of business totalling £144 million.

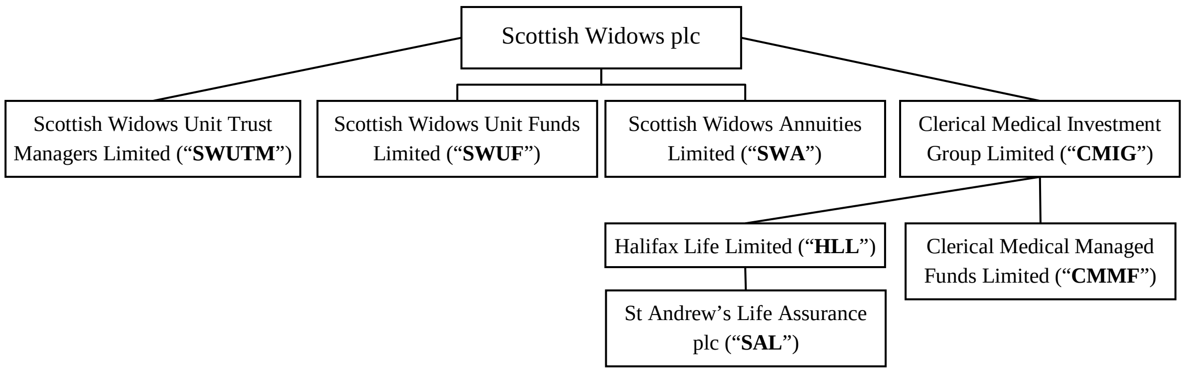
The Group continues to focus on retention of existing customers, including opportunities to migrate customers with maturing products into new investment propositions. Whilst the Group has invested in the systems and processes to help Independent Financial Advisers through RDR, the Group anticipates exits from the market and the direct channel will be increasingly important.

Organisational structure

The following chart shows, in simplified form, the organisational structure of the Group as at the date of this Prospectus.



In respect of the chart below, all companies below the Issuer are directly or indirectly 100 per cent. owned by the Issuer as at the date of this Prospectus. However, there can be no assurance that the Group structure will not change following the date of this Prospectus.



The principal activities of each of the above entities is set out below:

SWUTM – acts as the Authorised Corporate Director for the management of individual savings accounts, personal equity plans and open ended investment company sub funds.

SWUF – undertakes the reassurance of certain linked business transacted by the Issuer, including Stakeholder and Retirement Account business, in the UK.

SWA – undertakes the reassurance of certain annuity business transacted by the Issuer and, to a lesser extent, undertakes direct annuity business, in the UK.

CMIG – undertakes long-term insurance and investment business and associated investment activities in the UK and through non-UK branches.

HLL – undertakes ordinary long-term insurance and savings business and associated investment activities in the UK.

SAL – undertakes long-term insurance and savings business and associated investment activities in the UK.

CMMF – undertakes long-term insurance and investment business and associated investment activities including unit linked business in the UK.

In common with other life assurance companies in the UK, the life and pensions business of each of the life assurance companies in the Group is written in a Long-Term business fund. The main Long-Term business funds are divided into one or both of With Profits Sub-Funds and Non Participating Sub-Funds.

The Issuer and CMIG operate With Profits Funds. The benefits accruing from with-profits policies are designed to provide a smoothed return to policyholders who hold their policies to maturity through a mix of annual and final (or terminal) bonuses added to guaranteed basic benefits. The guarantees generally only apply on death or maturity. The actual bonuses declared will reflect the experience of the With Profits sub-fund.

Other life and pensions products are generally written from Non-participating sub-funds, including unit-linked policies, annuities, term assurances and health insurance (under which a predetermined amount of benefit is payable in the event of an insured event such as being unable to work through sickness). The benefits provided by linked policies are wholly or partly determined by reference to specific portfolios of assets known as unit-linked funds.

The Issuer's principal competitors in the long-term insurance and savings, corporate pensions and benefits businesses and investment management include Aviva, Legal & General, Standard Life and Prudential.

Constraints over available capital resources in the Group's With Profits Funds

The terms of the With Profits Funds place restrictions on the extent to which any available surplus in these funds may be used.

The Issuer and the Scottish Widows' Demutualisation Scheme

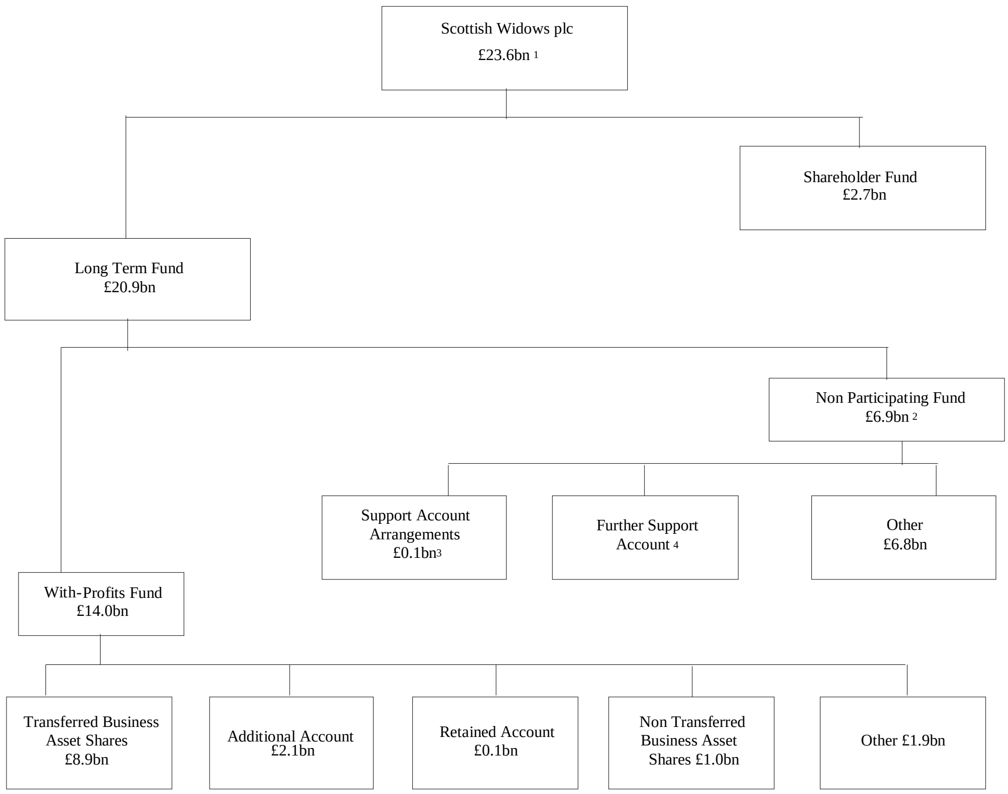
The business of the Issuer was created following the demutualisation of the Scottish Widows' Fund and Life Assurance Society ("**SWFLAS**") in 2000. The terms of the demutualisation are governed by a Court-approved Scheme which, *inter alia*, created a With Profits Fund and a Non Participating Fund and established protected capital support for the with-profits policyholders in existence at the date of the demutualisation. Much of that capital support is held in the Non Participating Fund and, as such, the capital held in that fund is subject to the constraints noted below.

In relation to the Issuer, following the demutualisation of the Society and transfer of its businesses to the Group, the terms on which the Group is run are set out in the Scheme and, in relation to the Group's With Profits business, its PPFM.

The terms of the Scheme may restrict the Issuer's ability to use assets in excess of policyholder liabilities and capital requirements to fund payments under the Notes or payments of dividends to shareholders.

The Scheme includes certain provisions, for the protection of transferring policyholders, particularly With Profits policyholders. These provisions require that the Issuer maintains certain levels of capital within the Non Participating Fund (as described in "*Fund Structure of the Issuer*"), to support its with profits business. The Issuer's shareholder has an interest in the surplus assets allocated to the Non Participating Fund, subject to any requirement to provide support to the With Profits Fund (as described in "*Fund Structure of the Issuer*"). Subject to the provisions included in the Scheme and subject to normal regulatory requirements, surplus assets in the Non Participating Fund would be transferable to the Issuer's Shareholders' Fund and would then be distributable to the Issuer's shareholder. The Non Participating Fund may, *in extremis*, be required to support the With Profits Fund. In the event of insolvency, the fund structure will not apply and all policyholders will rank in priority to other unsecured creditors (including noteholders). If there are surplus assets, these can generally be transferred to shareholder funds (for distribution to noteholders and shareholders), subject to standard regulatory requirements.

Fund Structure of the Issuer (as at 31 December 2012)



Notes:

(1) Figures shown are admissible assets net of current liabilities as in the FSA returns as at 31 December 2012.

(2) The assets in the Non Participating Fund cover liabilities of £5.5billion, leaving £1.3 billion excess over the support arrangements referred to in note 3 below.

(3) The Support Account under the Scheme amounted to nil at 31 December 2012. Implicit from statements made to holders of with-profits business written since demutualisation is the requirement to provide support for the investment policy for these policies to fulfil policyholders' reasonable expectations. The amount required to provide such support is £0.1 billion at 31 December 2012.

(4) The Further Support Account amounted to £2.2 billion at 31 December 2012. It is fully covered by the economic value of the assets of the Fund and the value of subsidiaries) which amounted to £5.3 billion at 31 December 2012.

The provisions of the Scheme involved the establishment of certain accounts (as shown on the above diagram) within the Issuer. The "**Additional Account**" within the With Profits Fund is intended primarily to be available to meet the cost of certain contingencies in respect of the Society's transferred with-profits policies transferred from the Society, principally guarantees on policies. The balance of the Additional Account will be paid out over time as a terminal bonus to holders of with-profits policies of the Transferred Business to the extent not needed to meet such contingencies.

On a market-consistent basis the liabilities of the With Profits Fund exceeded its assets by £0.1 billion as at 31 December 2012. A waiver is currently held with the effect that a transfer of this amount into the With Profits Fund is not required in order to satisfy regulations that a With Profit Fund's assets should cover its market-consistent liabilities. The excess of liabilities over assets is a consequence of the With Profits Fund recognising the liability to distribute the Additional Account to policyholders (to the extent not required to meet contingencies) and the obligation to make transfers to the Non Participating Fund (or Shareholder Fund), which consist mainly of management charges on unitised With Profits Business. The value of these transfers to the Non Participating Fund exceeds the corresponding costs by £0.3 billion as at 31 December 2012, but this cannot be recognised as a regulatory asset of the Non Participating Fund (as future profit streams are generally not recognised as assets under current solvency regulations).

The assets of the Additional Account include structured assets intended to protect the With Profits Fund against a future fall in medium and long term interest rates, and the consequential increase in the cost of meeting guaranteed annuity options.

The "**Support Account**" within the Non Participating Fund was established mainly to support the investment policy of that part of the With Profits Fund relating to policies transferred to the Issuer by the Society at demutualisation. At 31 December 2012 the amount of the Support Account was nil but would be increased (by transfer from the Further Support Account, see below) if the amount of the Additional Account at a year end were to fall below 10 per cent. of the value of assets backing with-profits policies transferred from the Society. It could also increase if operational losses of a material amount were to be charged to the With Profits Fund relating to events (e.g. negligence) that occurred before 3 March 2000. Notwithstanding the fact that the Support Account is within the Non Participating Fund, the Scheme states that the investment policy and bonus philosophy of the With Profits Fund relating to transferred policies is to be set as if the assets of the Support Account form part of the With Profits Fund (but must recognise that the Support Account is only a memorandum account which exists only to support the investment policy and bonus policy for transferred with-profits policies).

The "**Further Support Account**", which is also maintained in the Non Participating Fund, was established for the purpose of augmenting the Support Account in certain circumstances. The Further Support Account is again a memorandum account. Subject to the Appointed Actuary being satisfied that sufficient capital will remain available to meet the reasonable expectations of the transferred policyholders, the Further Support Account will amortise over the period to 2030 (reduced by any transfers to the Support Account or increased by any transfers from the Support Account as described above).

In addition to the establishment of the support accounts described above, the Scheme contemplates that assets may be made available from the Non Participating Fund to the With Profits Fund in the event that the With Profits Fund has insufficient assets (using calculations on the basis required by the FSA/PRA) to meet its liabilities. In addition, assets in the Non Participating Fund are required to be made available (subject as set out below) if the assets allocated to the With Profits Fund are not considered sufficient by the Appointed Actuary to meet policyholders' reasonable expectations. Assets need not be made available to the With Profits Fund if the Non Participating Fund itself would be insolvent following the transfer of such assets.

The Scheme and the PPFM together limit the extent to which actual guarantee costs in excess of the asset share may be charged to the asset shares of the remaining with-profits policies in the Transferred Business and Non Transferred Business. In the case of Non Transferred Business any excess can be met from accumulated small reductions, if any, but is ultimately charged to the Non Participating Fund or the Shareholder Fund. In the case of Transferred Business any excess is, other than in relation to death claims, charged to the Additional Account. If the Additional Account is exhausted the Scheme provides that any excess may be charged to asset shares (to the extent the Appointed Actuary determines that this is appropriate in the light of policyholders' expectations) failing which it is met by the Non Participating Fund or the Shareholder Fund. In 2002 the Issuer made a commitment that if for some reason the Additional Account proved insufficient to meet costs arising from guaranteed annuity options, any shortfall would not be deducted from asset shares.

The Scheme restricts transfers to the Shareholder Fund by requiring that, broadly speaking, after a transfer to the Shareholder Fund, the market value of the assets in the Non Participating Fund (which for this purpose includes the present value of the future profits expected to arise in the Non Participating Fund or its subsidiaries) must exceed the value of the liabilities of the Non Participating Fund and the amounts of the Support Account and the Further Support Account (less any amounts transferred to the With Profits Fund as described above).

In addition, after a transfer to the Shareholder Fund, the regulatory value (the value used for the purpose of PRA capital resource calculations) of the assets of the Non Participating Fund (excluding for this purpose the value of future profits) must exceed the value of the liabilities of the Non Participating Fund and the amount of the Support Account (less any amounts transferred to the With Profits Fund as described above). The Issuer interprets the Scheme as requiring that the business is managed with the aim that further assets equal to the required minimum margin of solvency (now the Long Term Insurance Capital Requirement) must be held either in the Shareholders' Fund or the Non Participating Fund. Further to this, because of statements to policy holders that in respect of the Group's With Profits Business the investment policy for most Non Transferred Business will usually be the same as that for the Transferred Business, there is an implicit requirement to aim to hold additional regulatory assets in respect of the relevant Non Transferred Business. There is a further test requiring that the Non Participating Fund retains assets which the Appointed Actuary of the Issuer believes should be retained to ensure that the Long Term Fund as a whole has sufficient assets to meet policyholders' reasonable benefit expectations in the light of the liabilities of the Issuer as a whole under its in-force business and the new business it expects to create over the next year.

In some conditions the requirements under the Scheme, as outlined above, could impose tighter constraints on the release of shareholder capital from the Non Participating Fund than PRA regulatory requirements. In those circumstances the terms of the Scheme may restrict the Issuer's ability to use assets in excess of policyholder liabilities to fund payments under the Notes or payments of dividends to the Issuer's shareholder.

Since the Scheme became effective PRA regulation has been amended such that the role of the Appointed Actuary has now been replaced with two roles, the Head of Actuarial Function and the With Profits Actuary. The Board of the Issuer has determined, as a practical matter, which of the references in the Scheme should now be interpreted as references to the With Profits Actuary, which should be references to the Head of Actuarial Function and which should refer to one of them in consultation with the other. As a result, the references to the Appointed Actuary in this section are now interpreted as references to the With Profits Actuary.

Clerical Medical Investment Group Limited

CMIG was created following the demutualisation of Clerical Medical and General Life Assurance Society in 1996. The terms of the demutualisation are covered by a Court-approved scheme which, *inter alia*, created a With Profits Sub-Fund and a Non Profit Sub-Fund. The capital resources of the Group's With Profits Business at the date of demutualisation together with a contribution from the purchaser were retained within the With Profits Sub-Fund. Under the scheme, all with-profits liabilities are borne by the With Profits Sub-Fund, together with attributable expenses and policy expense charges. The surplus held in the With Profits Sub-Fund can only be applied to meet the requirements of the fund itself or distributed according to the prescribed rules of the fund. Shareholders are entitled to an amount not exceeding one ninth of the amount distributed to policyholders in the form of bonuses on traditional With Profits Business. The use of capital within the fund is also subject to the terms of the scheme of demutualisation effected in 1996 and the conditions contained in the Principles and Practices of Financial Management ("**PPFM**") of the fund. The With Profits Sub-Fund is managed to be self-supporting. However, *in extremis* capital within the Non Profit Sub-Fund and Shareholder Fund are available to meet the With Profits Sub-Fund requirements. The Non Profit Sub-Fund may, *in extremis*, be required to support the With Profits Sub-Fund. In the event of insolvency, the fund structure will not apply and all policyholders will rank in priority to other unsecured creditors (including noteholders). If there are surplus assets, these can generally be transferred to shareholder funds (for distribution to the Issuer and then noteholders and shareholders), subject to standard regulatory requirements.

Solvency Position

The capital management strategy of the Issuer is such that the Issuer will maintain an appropriate buffer over regulatory capital requirements. The capital management approach is to maintain a buffer capable of withstanding a one in ten year stress event without breaching the solvency capital requirements. Surplus capital above that required to absorb a one in ten year stress event is available for distribution.

The Solvency I Pillar I surplus as at 31 December 2012 was £3.9 billion (84 per cent. of capital requirements).

Managed Assets and Shareholder Asset Credit Quality

As at 31 December 2012, the Group managed assets of £119 billion comprising £22 billion relating to With Profits Funds, £65 billion relating to unit-linked funds, £12 billion to OEICs and £19 billion of shareholder funds (including the Non Profit Fund).

Analysis of the shareholder fund by asset type and credit rating is set out below:

Shareholder fund assets split by asset type	31 December 2012
	£billion
Liquidity funds and unit trust investments	4.3
Government bonds	2.7
Other bonds (Note)	9.5
Cash at bank	0.1
Derivatives	0.5
Other investments	0.1
Other loans and receivables	2.3
Total	19.5

Note: "Other bonds" comprises other public sector bonds, bank and building society certificates of deposit, corporate bonds, mortgage backed bonds and other asset backed bonds.

Shareholder fund assets split by credit rating	31 December 2012
	£billion
AAA (Note)	9.2
AA	1.8
A	5.3
BBB	2.3
Other	0.9
Total	19.5

Note: including £2.6 billion of UK government bonds downgraded to AA since December 2012.

The assets analysed above include bonds, liquidity funds and cash and derivatives and are attributed the credit ratings as ascribed to them by various third party credit rating agencies as at 31 December 2012.

Financial Strength Ratings and Credit Ratings for the Notes

As at the date of this Prospectus the Issuer is assigned an A rating and stable outlook by S&P, an A2 rating with a stable outlook by Moody's and an A rating with a stable outlook by Fitch.

The Notes are expected to be rated BBB+ by S&P, Baa2 by Moody's and BBB+ by Fitch.

The credit ratings of the Issuer and the Notes referred to and included in this Prospectus have been issued by S&P, Moody's and Fitch, each of which is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**").

A 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.

Outlook

The insurance industry and the Group are operating in a changing market. While this creates challenging conditions for all insurance companies, the Group's diversity of distribution, portfolio of established brands and strong customer relations are expected to be a key strength when compared to its competitors. The key changes likely to shape the insurance market going forward include:

- The RDR has already resulted in a reduction in sales through "advised" channels, reflecting the Group's decision only to offer investment advice for customers with savings above £100,000. The revised landscape creates opportunities for new distribution models to emerge, likely to be driven by price competition and brand recognition. Accordingly, the Group is committed to providing a direct proposition to maintain a high quality of service to these customers, and has updated its range of products to deliver transparent and flexible charging solutions for advisers and their clients.

- Through its worksite platform "mymoneyworks", the Group expects to be well placed to provide tools and advice for auto-enrolment. In the short-term, the Group expects to see some reduction in its corporate pensions market share, as the impact of a pre-RDR surge in volumes diminishes and large schemes auto-enrol. However, the Group believes its long-term prospects are strong as its target market of mid-sized and smaller schemes reach their mandatory implementation dates. As part of the ongoing pensions reform agenda, the Group continues to influence industry-wide debate on the subjects of active member discounts and consultancy charging.

- The Association of British Insurers' Code of Conduct on Open Market Options was implemented in March 2013, which may impact the Group's vesting annuity rates as potentially more customers look to a wider variety of insurance product providers. However, it is also expected to be key to the Group's strategic growth plans to increase sales of enhanced annuities in the intermediary market.

- The ECJ's ruling relating to gender neutral pricing (on which see the risk factor entitled "*The European Court of Justice ("ECJ") ruling in the "Test Achats" decision no longer allows EU member states to rely upon a derogation in Article 5(2) of the Gender Directive, to allow gender specific pricing of premiums, which may result in reduced levels of insurance business and adversely affect the profits of the Group*" above and the section entitled "*The EU Gender Directive ruling*" below), which came into effect in December 2012, has been a disruptive event in many insurance markets, but particularly related to annuities and protection policies. The Group introduced gender-neutral pricing, affecting all new annuity and protection policy quotes, on 12 November 2012. Any annuity and protection policies quoted before this date and in place before 21 December 2012 are unaffected.

- Solvency II continues to feature in future strategy setting across the insurance industry. Delays around implementation, and the final content of, Solvency II mean insurers continue to operate with a degree of uncertainty. The Group's business model positions it to maximise the capital benefits from risk diversification available under the proposed Individual Capital Assessment Plus (ICA Plus) regime and, ultimately, Solvency II.

- From the 2013 fiscal year, new UK tax rules for protection products have been implemented. The new tax rules have resulted in an increase in tax for the Group.

- The recent FSA review of Risks to Customers from Financial Incentives marks the start of a programme of work to be taken forward within the insurance industry and an internal Lloyds Banking Group programme has already been established in support of this review.
- With effect from 1 April 2013, the FSA was succeeded by the PRA and the FCA. In line with the rest of the insurance industry, the Group has exposure to changes in future regulatory capital requirements as these authorities implement enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. Such changes may require the Group to satisfy increased capital requirements. However, the Group's current policy is to maintain appropriate buffers in excess of minimum regulatory capital requirements.
- A Scottish Independence referendum is due to be held in 2014. A Lloyds Banking Group Scottish Constitutional Change Steering Group, with cross-Lloyds Banking Group representation, has been set up to assess any potential impact for the business.

Management

Directors of the Issuer

The following is a list of directors of the Issuer and their principal directorships (if any) performed outside the Group which are, or may be, significant with respect to the Issuer, as at the date of this Prospectus. The business address of each of the directors referred to below is 69 Morrison Street, Edinburgh, EH3 8YF.

Name	**Responsibilities in relation to the Issuer**	**Principal outside activities**
Lord Blackwell	Chairman	Non-executive director, LBG Interserve plc Halma plc OFCOM (non-executive board member) Centre for Policy Studies Limited Member of the House of Lords
Dr N M Bryson	Deputy Chairman	Church of Scotland Investors Trust (Trustee) University of St Andrews (Deputy Senior Governor) St Columba's Hospice (Deputy Chairman)
M Christophers		Forester Life Limited Chambers Townsend Consultancy Limited Investment Solutions Limited Investment Solutions Fund Managers Limited Forester Holdings (Europe) Limited Gaudi Limited Gaudi Regulated Services Limited Alexander Forbes International Limited Investment Solutions Group Limited Investment Solutions Investment Administration Services Limited Marketguard Insurance Company Limited Gaudi Trustees Limited

Name	Responsibilities in relation to the Issuer	Principal outside activities
		Focus Insurance Company Limited Service Insurance Company Limited
M G Culmer		Group Finance Director, LBG
M A Fisher		None
J Goford		None
A M Parsons	Finance Director	None
A M Peck		Trustee, The Guildhall School Trust
C A C M Schrauwers		Guernsey Financial Services Commission (Chairman) Record Currency Management Limited Record plc
T E Strauss	Chief Executive	None
D J Walkden	Operations Director	None

Each of the directors is also a director of Scottish Widows Group Limited. Certain of the directors may also be directors of other companies within the Lloyds Banking Group from time to time.

None of the directors of the Issuer have any actual conflict between their duties to the Issuer and their private interests or other duties as listed above.

Legal Actions and Regulatory Matters

Legal Actions

During the ordinary course of business the Issuer and its subsidiaries are subject to threatened or actual legal proceedings and regulatory challenge both in the UK and overseas.

CMIG has received a number of claims in the German courts, relating to policies issued by CMIG but sold by independent intermediaries in Germany, principally during the late 1990s and early 2000s. In its audited financial statements for the year ended 31 December 2011, the Group recognised a provision of £175m with respect to this litigation. Following decisions in July 2012 from the FCJ in Germany the Group has recognised a further provision of £150 million with respect to this litigation, increasing the total provision to £325 million.

However, there are still a number of uncertainties as to the full impact of the FCJ's decisions, and the implications with respect to the claims facing CMIG. As a result the ultimate financial effect, which could be significantly different to the provision, will only be known once there is further clarity with respect to a range of legal issues involved in these claims and/or all relevant claims have been resolved.

Regulatory Matters

In the course of its business, the Issuer is engaged in discussions with the FCA and PRA in relation to a range of business matters, however there are currently no issues of material regulatory concern under discussion.

The Issuer is keen to ensure that any regulatory concerns are understood and addressed. The ultimate impact on the Issuer of these discussions can only be known at the conclusion of such discussions.

Other Legal Actions and Regulatory Matters

In addition, during the ordinary course of business the Issuer and its subsidiaries can be subject to threatened and actual legal proceedings (which could include class action lawsuits brought on behalf of customers, shareholders or other third parties), regulatory investigations, regulatory challenges and enforcement actions.

Any such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Issuer incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to assess properly the merits of the case and no provisions are held against such matters. However, the Issuer does not currently expect the final outcome of any such matter to have a material adverse effect on its financial position.

Guarantees

The Issuer and CMIG have entered into the following guarantee arrangements with other companies within the Lloyds Banking Group.

A guarantee from the Issuer to the corporate trustee of the Scottish Widows Retirement Benefits Scheme (the "**SWRBS**") to explicitly cover the minimum legal obligations imposed on Scottish Widows Services Limited and Scottish Widows Investment Partnership Group Limited and Lloyds TSB Bank plc (the "**employers**") by section 75 of the Pensions Act 1995. As a result, the Issuer will be liable to its proportionate share of the deficit in the SWRBS at the relevant time (calculated as the cost of securing benefits with an insurer) in the event that: SWRBS is wound up; the employers become insolvent; or an employer ceases to employ active members of the SWRBS at a time when another employer continues to do so.

A guarantee from CMIG to Clerical Medical Finance plc ("**CMF**") in relation to subordinated debt issued externally by CMF. CMF in turn loaned the proceeds to CMIG on similar interest, repayment and subordination terms as those applicable to the external bonds. CMIG has guaranteed the bonds on a subordinated basis after the claims of its senior creditors, including all policyholders.

REGULATORY OVERVIEW

The operations of the Group include activities in a number of EEA jurisdictions, primarily in the United Kingdom. The regulation of the Group's activities requires any companies carrying on specified activities to obtain permission, authorisation and/or a licence to carry on such activities and to comply with detailed prudential and conduct of business rules.

Overview of UK and other regulation

FSA, PRA and FCA

Prior to 1 April 2013 insurance companies in the UK were required to have obtained authorisation from the FSA and were subject to regulation under the regime established pursuant to FSMA. Accordingly, UK insurers were required to comply with the rules and guidance made by the FSA under FSMA and set out in the FSA Handbook.

The Financial Services Act 2012 received Royal Assent on 19 December 2012. It provides a new framework for financial regulation in the UK. The Act (and the necessary secondary legislation that will support it) provides for the creation of a new UK regulatory architecture, including the replacement of the FSA by the FCA and PRA. With effect from 1 April 2013, the Issuer and the Group are regulated by both the PRA and the FCA and must comply with the rules and guidance of the PRA and FCA under FSMA.

The PRA is a subsidiary of the Bank of England, with responsibility for carrying out the prudential regulation of insurance companies, banks and certain large investment firms. The PRA's primary purpose and objective is to promote the safety and soundness of the firms it regulates. The PRA also has a specific "insurance objective" of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders of a PRA-authorised insurer.

The FCA regulates the conduct of every authorised firm (including firms who are also regulated by the PRA). The FCA's primary purpose and its "operational objectives" will be to protect and enhance confidence in the UK financial system by securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in consumers' interests. The FCA is obliged to discharge its general functions in a way that promotes competition, something which the FSA was not required to do prior to the Financial Services Act 2012 coming into effect.

The Financial Services Act 2012 also creates the Financial Policy Committee (the "**FPC**"), which is a sub-committee of the court of directors at the Bank of England, and which will have powers and responsibilities in relation to systemic risk within the financial services sector, responding to sectoral issues that could threaten economic and financial stability. The FPC will have powers to give directions to the PRA and the FCA.

While it is not presently anticipated that the structural reorganisation and reallocation of the FSA's regulatory responsibilities will by itself lead to material substantive changes in the prudential and conduct of business rules and guidance which have been made or were consulted on by the FSA, changes will be made to the structure and composition of the FSA Handbook to accommodate the division of responsibilities between the FSA's successor regulatory authorities. Most provisions in the FSA Handbook have been or will be adopted (or "designated") by the FCA and PRA into their respective handbooks, according to each regulator's scope and powers. Secondary legislative measures under the new Financial Services Act 2012 will set out how the current UK regulatory regime will be transitioned to the new regime.

The Financial Services Act 2012 provides for specific powers for the PRA and the FCA which are additional to the powers previously held by the FSA, including:

(1) the ability for the FCA to intervene in order to ban financial products from sale or to ban a firm from selling a widely accepted product if it determines such firm's sale processes to be unacceptable; and

(2) the ability for the PRA to direct an unregulated UK holding company to take particular action, or refrain from taking a particular action, and to censure or fine such company if it does not so comply.

It is possible that the nature of, or policies for, prudential and conduct of business supervision as performed by the FCA and/or PRA could differ from the previous approach taken by the FSA, including the possibility of higher capital requirements and restrictions on certain types of transaction structures. There are risks and uncertainties as to how the FCA and PRA will interact with each other over the regulation of the same legal entities. While the Group will seek to ensure that it is prepared for this new system of regulation, there are risks associated with whether the new system will result in more intrusive and intensive regulation, adding additional burdens on the Group's resources. For instance, it is unclear how the FCA intends to apply its powers in respect of the sale of financial products, and if there is any change in regulatory focus in the UK on product regulation, it may also impact on the Group's ability to sell certain products in the future, which may adversely affect the Group's distribution arrangements.

Retail Distribution Review

In June 2006, the FSA launched the RDR which has since been a key retail priority for the FSA and complements its long-term work to ensure that firms treat their customers fairly.

The key initiatives are:

- a ban on commission for advised sales of investment products. The cost of advice must be agreed between the customer and the adviser;
- an increase in the professional qualifications needed by advisers; and
- clearer descriptions on the nature of the advice being provided. Where an adviser offers advice on a restricted product range or from a restricted range of product providers, this will need to be made clear.

The new rules were implemented from January 2013. They will potentially have a significant impact on the investment advisory industry, although there is currently insufficient data to assess their impact.

The new rules will also have a permanent impact on insurers' and distributors' charging models. Except in relation to pure protection products, and non-advised and execution only sales, adviser firms will no longer be able to receive commission set by product providers in return for recommending their products, but will have to operate their own fee-based charging tariffs for advising clients.

It is expected that, as a result of RDR, some independent financial advisers may choose to exit markets, therefore some customers may look to receive advice elsewhere.

Taken together, the RDR is likely to affect the business models, and potentially therefore the profitability, of not only customer-facing distributor and adviser intermediary firms but also the insurance firms that provide underlying products which are distributed or recommended by those intermediary firms.

Dodd-Frank Act

In July 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), which provides a broad framework for significant regulatory changes that extend to almost every area of US financial regulation. The Dodd-Frank Act addresses, among other issues, systemic risk oversight, bank capital standards, the resolution of failing systemically significant financial institutions in the United States of America (the "**US**"), over-the-counter derivatives, restrictions on the ability of banking entities (subject to certain limited exceptions, including one available to certain non-US affiliates of foreign banking organisations with respect to activities conducted solely outside the US) to engage in proprietary trading activities and make investments in certain private equity and hedge funds (known as the ‘Volcker Rule’), asset securitisation activities and securities market conduct and oversight.

Under the so-called swap ‘push-out’ provisions of the Dodd-Frank Act, the derivatives activities of US banks and US branch offices of foreign banks will be restricted, which may necessitate changes to how the Lloyds Banking Group conducts its derivatives activities. Entities that are swap dealers and major swap participants must register with the US Commodity Futures Trading Commission, and entities that are security-based swap dealers or major security-based swap participants will be required to register with the SEC. Entities that register in any of these categories become subject to additional requirements relating to capital, margin, business conduct, and recordkeeping, among others.

Furthermore, the Dodd-Frank Act requires the SEC to cause issuers with listed securities, which may include foreign private issuers such as members of the Lloyds Banking Group, to establish a “clawback” policy to recoup previously awarded employee compensation in the event of an accounting restatement. The Dodd-Frank Act also grants the SEC discretionary rule-making authority to impose a new fiduciary standard on brokers, dealers and investment advisers, and expands the extraterritorial jurisdiction of US courts over actions brought by the SEC or the United States with respect to violations of the antifraud provisions of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940.

US regulators are implementing many provisions of the Dodd-Frank Act through detailed rulemaking, and the implementation process will likely continue for several more years. Among many other proposals, US regulators have issued proposed rules implementing the Volcker Rule, but final rules have not yet been adopted.

With-profits regime review

On 7 March 2012 the FSA published a policy statement (PS12/4) on protecting with-profits policyholders. The policy statement includes the final form of the new rules adopted by the FSA with effect from 1 April 2012 applying to firms operating With Profits Funds in the areas of governance, conflicts of interest, product literature, the treatment of excess surplus and the terms on which new business is written.

The policy statement also states that the FSA (succeeded by the FCA and the PRA) intends to conduct further work on with-profits policyholder communications; no anticipated timeframe for this further work has been provided.

Other bodies impacting the UK regulatory regime – consumer complaints and compensation

The Bank of England and HM Treasury

The agreed framework for co-operation in the field of financial stability in the financial markets is detailed in a Memorandum of Understanding published jointly by the FSA (now the FCA), the Bank of England (now including the PRA) and HM Treasury. The Bank of England has specific responsibilities in relation to financial stability, including: (i) ensuring the stability of the monetary system; (ii) oversight of the financial system infrastructure, in particular payments systems in the UK and abroad; and (iii) maintaining a broad overview of the financial system through its monetary stability role and the deputy governor’s membership of the FCA’s Board. The Tripartite Authorities work together to achieve stability in the financial markets.

UK Financial Ombudsman Service

The FOS provides 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 for eligible persons that cover most financial products and services provided in (or from) the UK. The jurisdiction of the FOS extends 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 regulated firms.

The Financial Services Compensation Scheme

The FSCS was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. Companies within the Group are responsible for contributing to compensation schemes in respect of financial services firms that are unable to meet their obligations to customers. 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 authorised firms, including companies within the Group.

UK Office of Fair Trading (the "OFT")

The OFT is the UK's consumer and competition authority. Its regulatory and enforcement powers could impact the insurance sector in a number of ways, including powers to investigate and prosecute a number of criminal offences under competition and consumer law.

UK Information Commissioner's Office (the "ICO")

The ICO 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.

Overview of the EEA regulatory environment

At a European level, a number of new directives or changes to existing directives are planned to be introduced in the next twelve to twenty-four months and beyond, including those identified below in the section entitled "Future developments". The UK has implemented all of the directives introduced under the Financial Services Action Plan. However, these directives are regularly reviewed at EU level and could be subject to change. The Group will continue to monitor the progress of these initiatives, provide specialist input on their drafting and assess the likely impact on its business.

The European Union Life and Non-Life Insurance Directives (the "**EU Insurance Directives**") establish a framework for regulation of insurers in the European Union which is extended to the EEA. The EU Insurance Directives provide that an authorisation to carry on insurance business granted by the insurance regulator in an EEA member state where the insurer is incorporated or has its head office (a "**home state regulator**") is valid for the entire EEA (the "**passporting right**"). The home state regulator determines the procedures for exercising the passporting right depending on whether an insurer proposes to establish a branch or provide insurance services on a cross-border basis in another EEA Member State (a "**host state**").

Generally, in accordance with the principles set out in the EU Insurance Directives, prudential regulation of an insurer is a matter for its home state regulator whereas the conduct of business and marketing requirements applicable in a host state are determined by the host state regulator.

The European Commission has recently created a new European supervisory framework for the financial system. This involves the establishment of a two-tier pan-European regulatory structure in order to remedy the perceived weaknesses in the EU's previous supervisory framework. This new regulatory structure came into effect on 1 January 2011.

Firstly, at the "macro-prudential" level a European Systemic Risk Board (the "**ESRB**") monitors and assesses risks to the European financial system as a whole. The ESRB is intended to have the power to issue recommendations and warnings to Member States (including the national competent authorities) and to the European Supervisory Authorities ("**ESAs**") (see below). The ESRB is also charged with collecting and exchanging relevant information from and between the new ESAs and Member States (including national competent authorities) and with the identification and prioritisation of systemic risks.

Secondly, at the "micro-prudential" level a European System of Financial Supervisors consisting of three new ESAs. The European Banking Authority, the European Insurance and Occupational Pensions Authority ("**EIOPA**"), and the European Securities and Markets Authority – replaced the three European Committees in these areas, which had advisory powers only, namely the Committee of European Banking Supervisors, the Committee of European Insurance and Occupational Pensions Supervisors ("**CEIOPS**") and the Committee of European Securities Regulators.

The ESAs will have powers to set technical standards that are binding across Europe, and in certain circumstances to mediate between, or to intervene in the practices of, individual national regulatory authorities.

The creation of the ESAs may be indicative of a drive towards much greater centralisation of supervisory powers within Europe and, in due course, may mark the beginnings of the creation of a single European regulatory rulebook.

Future developments

Solvency II Directive

The Solvency II regime is an initiative of the European Union which will replace (among other legislation) the current Non-Life Directives, the Consolidated Life Directive, the Reinsurance Directive, the Winding-Up Directive and the Insurance Groups Directive. The framework for the Solvency II regime is set out in the framework directive (the "**Solvency II Framework Directive**") and the regime as a whole is intended to introduce more sophisticated and risk sensitive standards to capital requirements for insurers in order to ensure sufficient capital is held to protect policyholders from the risks inherent in insurers' businesses. The Solvency II regime will be based on three pillars: capital requirements, supervisory review process and public reporting and disclosure. It will cover valuation of assets and liabilities, the treatment of insurance groups, governance of insurers and insurance groups and the definition of capital and overall level of capital requirements.

The European Commission published the draft Omnibus II Directive on 19 January 2011 to update the Solvency II Framework Directive to reflect the Lisbon Treaty (e.g. the new roles of the ESAs (including, in relation to Solvency II in particular, EIOPA)) and to make a number of other changes described below. The proposal included a change to the implementation date for the Solvency II Framework Directive. However, as the final text of the Omnibus II Directive is yet to be agreed by the Council of the European Union and the European Parliament, in the meantime the EU agreed a "Quick Fix" Directive to change the date of transposition and implementation of the Solvency II regime. Under this Directive, the Solvency II Framework Directive is due to be transposed by 30 June 2013 and implemented on 1 January 2014. However, on 21 February 2013, the European Parliament rescheduled the plenary vote on the Omnibus II Directive from 10 June 2013 to 22 October 2013. This means that the Omnibus II Directive will not be finalised until after the current transposition date of 30 June 2013. It is expected that a further "Quick Fix" Directive will be required to defer the transposition and implementation dates further. The Group understands that there is now insufficient time for Solvency II to enter into force before 1 January 2015 and that it is unlikely to enter into force before 1 January 2016.

The primary reason for the ongoing delay is political disagreement on the right approach to calculating solvency in respect of products which carry long term guarantees. Amendments to the Solvency II Framework

Directive had been proposed by the European Parliament (via Omnibus II) reflecting some of the EU's work on draft implementing measures, as below. Discussion of this issue had reached a stalemate, and a decision was therefore taken to conduct an impact assessment of a package of measures proposed by the EC. This impact assessment (known as the "Long-Term Guarantee Assessment" or "**LTGA**") was launched at the end of January 2013. Results are not expected before June 2013. The package includes an approach for handling annuities (and similar products) and is therefore very important for the UK market and the Group in particular.

The European Commission has initiated the process of developing detailed rules that will expand on the high-level principles of the Solvency II Framework Directive, referred to as "Level 2 implementing measures" (which will be known as "delegated acts" once the Omnibus II Directive has been adopted)) but this work is stalled pending finalisation of the Omnibus II Directive.

A key change in the Solvency II regime is the possibility in Pillar I of using an internally devised economic capital model to calculate regulatory capital requirements, with regulatory approval. This is discussed above under the heading "*The European Commission is currently in the process of introducing a new regime ("Solvency II") governing solvency margins, own funds, reserves and governance, the effect of which is uncertain"* in the "Regulatory risks" the section of this Prospectus entitled "Risk Factors". Another central aspect of the Solvency II regime is the Pillar II focus on firms' systems of governance and risk management, including a forward looking assessment of all risks – the Own Risk and Solvency Assessment. The Solvency II regime requires firms to develop and embed an effective risk management system as a key part of running the firm; the FSA had previously been carrying out thematic reviews of risk management with major UK insurers as part of its ICAS solvency regime for some time. However further development and documentation in this area is still expected to be necessary.

In addition to amending the implementation date of the Solvency II regime, the draft Omnibus II Directive seeks to make further amendments to the Solvency II Framework Directive published in 2009. In addition to the changes mentioned above relating to the Lisbon Treaty, the proposed amendments include the granting of power to the European Commission to specify transitional measures in a number of areas, including valuation, governance requirements, the determination and classification of own funds and international convergence with Solvency II requirements (third country equivalency tests), and the granting of power to EIOPA to set binding technical standards in regard to Solvency II to be followed at national level. Although originally intended to make minimal changes to the Solvency II Framework Directive, it now seems likely that the Omnibus II Directive will make a number of substantive changes to the Solvency II Framework Directive itself. Transposition of the Solvency II Framework Directive into UK law will require a combination of changes to primary legislation and changes to the PRA Handbook on which the PRA must consult.

There is significant uncertainty regarding the final text of the Level 2 implementing measures and the Omnibus II Directive, and hence the requirements of the Solvency II regime. As a result there is a risk that the effect of the measures finally adopted could be adverse for the Group, including among other things, a potentially significant increase in capital to support its business and costs associated with developing an internal model and enhanced risk management and governance framework.

Proposals around Packaged Retail Investment Products

Following the publication of a provisional version on 3 July 2012, the European Commission published the final version of its proposal for a regulation for a new key information document ("**KID**") to be provided to retail investors in relation to PRIPs on 9 July 2012. The investment product manufacturer will be responsible for preparing the KID and while product manufacturers may delegate the preparation of part or the whole of the KID to third parties, such as under a collaboration with distributors, they remain ultimately responsible for the document.

The proposal introduces the principle that all KIDs should have a standardised "look and feel" and contents designed to keep them focused on key information presented in a common way so as to promote comparability of information and its comprehension by retail investors. The person selling the product to retail investors (whether a distributor or the product manufacturer in the case of direct sales) must provide the KID to the potential investor in good time before a sale is transacted.

The legislative proposals for PRIPs are expected to be introduced through the revisions of the IMD2 and the MiFID (following the ongoing review of each). The European Commission's proposal will now go to the European Parliament and the Council for their consideration under the co-decision procedure. Once they reach agreement, the European Commission will carry out detailed work on the implementing measures. The full proposal is currently expected to be in place by the end of 2014.

Such proposals are expected to have an impact on how PRIPs are manufactured and sold. For example, there are likely to be substantial costs associated with producing the required disclosure documents and it is clear that the responsibility (and therefore the cost) of doing so will fall exclusively on the product manufacturer. The PRIPs proposal will, accordingly, result in an operational, cost or other negative impact on the Life and Pensions businesses and their distribution arrangements.

The MiFID II proposals for selling practices in relation to non-insurance PRIPs suggested restrictions be imposed on the payment of commission to advisers (such restrictions being similar in nature to those proposed by the RDR). As the PRIPs regime is intended to harmonise the legislative framework for the distribution of all PRIPs, it is likely that similar restrictions on the payment of commissions will be proposed in due course to apply also to insurance-based PRIPs.

The final position in respect of the PRIPs proposals remains somewhat unclear and it remains to be seen whether the requirements relating to the pre-contractual disclosure and selling practices for PRIPs will go further than the reforms proposed under the RDR.

Insurance Mediation Directive

The IMD established an EU regime for intermediaries involved in the promotion, sale and administration of certain insurance products. In 2007 (two years after the transposition deadline), it became apparent that there was possibly a need to amend the IMD. The European Commission originally stated that it would carry out a review of the IMD in 2008, but this was postponed. A final report on the impact of the revision to the IMD (prepared by PwC Luxembourg for the European Commission, dated 23 May 2011) was published on 25 November 2011. This identified some areas of concern for participants in the UK insurance industry, which could lead to disruption and increased costs for businesses (for example, the proposed introduction of high-level conflicts of interest rules, including a potential ban on commission on all sales of insurance products, could impact upon distribution channels, which are dominated by intermediaries).

Following publication of a provisional version of its IMD2 legislative proposal on 3 July 2012, the Commission published the final version of the IMD2 legislative proposal on 9 July 2012. The Commission explained that IMD2 is designed to improve the regulation of the retail insurance market and the proposed directive aims to ensure a level playing field between all participants involved in the sale of insurance products, and to strengthen policyholder protection. IMD2 will be a minimum harmonisation directive. However, the minimum standards of the IMD will be raised significantly. The legislative proposal has been passed to the European Parliament and the Council of the European Union for their consideration under the co-decision procedure.

It is expected that the European Parliament and the Council of the European Union are likely to adopt IMD2 during 2013. Work on subsequent technical measures to give effect to a number of IMD2 provisions would start soon after that. The new regime is most likely to enter into force in 2015.

There is a risk that the measures finally adopted in IMD2 could be adverse for the Group.

The EU Gender Directive Ruling

On 1 March 2011 the ECJ published its Test Achats ruling. The ECJ has ruled that the exemption in Article 5(2) of the Gender Directive which allowed insurers to use gender-related factors in determining premiums and benefits under insurance policies, was incompatible with the prohibition on discrimination on the grounds of gender enshrined as a fundamental right of the European Union, and was therefore invalid. This was significant for many insurers in Europe which used gender as a risk factor for pricing for both general and life insurance policies. As a result insurers were given until 21 December 2012 to change their practices to comply with the ECJ ruling.

Insurance guarantee schemes

In 2010 the European Commission published a proposal concerning the introduction of a pan-European regime harmonising the existence and features of insurance guarantee schemes ("**IGSs**") to be adopted in each EEA member state. IGSs are usually industry-funded schemes, designed to respond to funding shortfalls in the event of an insurer getting into financial distress. In October 2011 the European Parliament published a resolution in response to the European Commission's proposals calling on the European Commission to put forward a proposal for a directive on IGSs to complement deposit guarantee schemes, investor compensation schemes and Solvency II.

On 24 July 2012 EIOPA published a report (dated 25 May 2012) on the role of IGSs in the winding-up procedures of insolvent insurance undertakings in the EU and EEA. The report summarised the findings of a questionnaire sent to EU and EEA members about their existing IGS arrangements. EIOPA suggested in that report that any future Insurance Guarantee Schemes Directive ("**IGSD**") should provide member states with sufficient flexibility to adapt the directive's requirements to fit in with their national frameworks.

The Commission is expected to publish a legislative proposal for the IGSD in 2013.

Foreign account tax compliance withholding

Under sections 1471 through 1474 of the U.S. Internal Revenue Code ("**FATCA**"), the Issuer or, as the case may be, the Issuer and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of the Notes, unless, in each case, the recipient of the payment complies with certain certification and identification requirements.

If an amount were to be deducted or withheld from interest, principal or other payments on the Notes on account of FATCA, 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, if payments in respect of the Notes are subject to FATCA withholding, investors may receive less interest or principal than expected.

On 12 September 2012, the UK and the U.S. entered into the Intergovernmental Agreement to Improve Tax Compliance and to Implement FATCA (the "**Agreement**"). On 18 September 2012 HMRC launched a consultation on implementing the Agreement into UK law, which is expected to be done as part of the Finance Bill 2013.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change. Holders of the Notes should consult their own tax advisers on how these rules may affect each holder in its particular circumstance.

Alternative Investment Fund Managers Directive ("AIFMD")

The AIFMD is a European Directive which aims to provide a harmonised regulatory and supervisory framework for managers of Alternative Investment Funds ("**AIFs**") within the EU. It sets rules regarding the organisation and conduct of business of the managers and imposes certain new requirements on the AIFs. The ultimate deadline for EU Member States to transpose the AIFMD into their national law is July 2013. Managers of AIFs already active before July 2013 will have until July 2014 to obtain authorisation from their relevant competent authority. At a local level, the UK regulator has already stated that they will introduce a new rule book to implement the Directive requirements and full details on these new rules are expected in Q1 2013. The Group operates a substantial number of funds deemed to be AIFs and the scope and content of the changes is significant. The AIFMD lays down rules for the authorisation, ongoing operation and transparency of managers of AIFs and also places additional responsibilities and liabilities on AIF Depositaries. The Group may face increased compliance costs due to the need to set up additional compliance controls or reporting requirements to comply with the new rules. In addition, depositary charges to the Group may increase as they seek recompense for the additional risks and expenses introduced by the new regime.

TAXATION

The following discussion is a summary of the current taxation treatment of payments of interest on the Notes under tax law in the United Kingdom. The discussion does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase the Notes. The discussion is based on the tax laws of the United Kingdom and the published practice of HM Revenue & Customs ("**HMRC**") as in effect on the date of this document, which are subject to change, possibly with retroactive effect. The discussion does not consider any specific facts or circumstances that may apply to a particular Noteholder and applies only to persons who are absolute beneficial owners of their Notes and may not apply to certain classes of persons such as dealers, certain professional investors or persons connected with the Issuer, to whom special rules may apply. The discussion does not necessarily apply where the income is deemed for tax purposes to be the income of any other person. The UK tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be unsure as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

UK Taxation

Payments of interest on the Notes may be made without withholding or deduction for or on account of UK income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. 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 FSMA) and are admitted to trading on the London Stock Exchange. Provided therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of UK tax.

Interest on the Notes may also be paid without withholding or deduction on account of UK tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer 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 UK corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely 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.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of UK 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).

HMRC has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest; and securities transactions.

The persons from whom HMRC can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information HMRC can obtain includes: details of the beneficial owner of securities or, if not known, details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. This limitation does not apply to HMRC's power to obtain information about payments derived from securities.

In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

Interest on the Notes constitutes UK source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a UK branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

In general, Noteholders which are within the charge to UK corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

Noteholders should be aware that the provisions relating to additional payments referred to in Condition 8 of the Conditions would not apply if HMRC sought to assess the person entitled to the relevant interest on any Notes directly to UK income tax.

EU Directive on the Taxation of Savings Income

Under European Commission Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain other persons 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, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. 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 EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Goldman Sachs International, Lloyds TSB Bank plc and Merrill Lynch International (the "**Managers**") have, pursuant to a subscription agreement dated 12 April 2013 (the "**Subscription Agreement**"), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Notes at 98.479 per cent. of the principal amount of the Notes and will receive certain commissions and expenses as agreed with the Issuer.

The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer.

The yield of the Notes is 7.127 per cent. on an annual basis. The yield is calculated as at 16 April 2013 on the basis of the issue price. It is not an indication of future yield.

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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("**Regulation S**").

Each Manager has agreed that, except as permitted by the relevant Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent 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 this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes in respect thereof, an offer or sale of Notes within the United States by any Manager, whether or not participating in the offering, may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, if it was not an authorised person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General

Each Manager has agreed to comply, to the best of its knowledge and belief, with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Prospectus or any other offering material relating to the Notes and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the 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 none of the Issuer and any other Manager shall have responsibility therefor.

None of the Issuer, the Managers and the Trustee 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.

Managers' business relationships with the Group

Each Manager and its affiliates may currently provide, and may continue to provide, banking services, including senior lending facilities, to the Issuer on customary market terms, and for which they have been or will be paid customary fees.

In addition, in the ordinary course of their business activities, each Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and/or their respective affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer and/or their respective affiliates and may routinely hedge their credit exposure to the Issuer and/or such affiliates consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer or the relevant affiliate, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GENERAL INFORMATION

1. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or before 17 April 2013, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2. The Issuer has obtained all necessary consents, approvals and authorisations in the UK in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a meeting of the Board of Directors of the Issuer held on 21 March 2013 and a sub-committee of the Board of Directors held on 8 April 2013.

3. There has been no significant change in the financial or trading position of the Issuer or of the Group and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2012.

4. Except as disclosed in the second and third paragraphs of the section of this Prospectus entitled "Legal Actions" as set out on page 89, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) arising during the 12 months preceding the date of this Prospectus which may have or have had in the recent past, significant effects on the financial position or profitability of the Issuer or the Group.

5. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 091479176. The International Securities Identification Number (ISIN) for the Notes is XS0914791768.

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

6. The initial yield on the Notes will be 7.127 per cent. per annum calculated on an annual basis. The yield is calculated on the Issue Date on the basis of the issue price of the Notes. It is not an indication of future yield.

7. There are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes being issued.

8. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

9. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the office of Citibank, N.A., London Branch, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB:

   (i) the Trust Deed (which includes the form of the Global Certificate and the definitive Notes) and the Agency Agreement (in draft form until finalised);

(ii) the Articles of Association of the Issuer;

(iii) the audited consolidated annual accounts of the Issuer for the two years ended 31 December 2011 and 31 December 2012; and

(iv) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at *http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*.

10. PricewaterhouseCoopers LLP of Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH (Chartered Accountants and Statutory Auditors) and a member of the Institute of Chartered Accountants in England and Wales has audited, and rendered unqualified audit reports on, the accounts of the Issuer for the two years ended 31 December 2011 and 31 December 2012.

11. The Joint Lead Managers and their affiliates have engaged, and may in future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and/or its affiliates in the ordinary course of business.

DEFINITIONS

The following definitions apply throughout this Prospectus unless the context otherwise admits, save that capitalised terms used in the section of this Prospectus headed "*Terms and Conditions of the Notes*" have the meanings given therein.

"**Actuarial Function**"	means a controlled function defined by legislation which has responsibility for monitoring and advising management on the risks associated with the company's long term insurance business and the capital required to support the business.
"**Agency Agreement**"	means the agency agreement dated on or around 16 April 2013 relating to the Notes.
"**AIF Depositary**"	Means an alternative investment fund depositary, which is responsible for the safekeeping and monitoring of the assets contained with the fund.
"**Appointed Actuary**"	means a person approved by the FSA to carry out actuarial functions. From 2004, the role of the Appointed Actuary has been replaced by an Actuarial Function Holder and a With-Profits Actuary.
"**Approved Person**"	means a person approved by the PRA and the FCA to carry out controlled functions under the FSMA.
"**Authorities**"	means, collectively, HM Treasury, the Bank of England (including the PRA) and the Financial Conduct Authority.
"**Bancassurance**"	means the relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products.
"**Banking Act**"	means the UK Banking Act 2009.
"**Board**"	means the board of directors of the Issuer.
"**CFO Forum**"	means the European Insurance CFO Forum.
"**Clearstream, Luxembourg**"	means Clearstream Banking, société anonyme.
"**CMIG**"	means the Clerical Medical Investment Group Limited.
"**Condition**"	means, in respect of a numbered Condition, the relevant condition of the Notes set out under the "*Terms and Conditions of the Notes*".
"**Consolidated Life Directive**"	means the Directive concerning life assurance (2002/83/EC).
"**controlled functions**"	means certain key functions in the operation of an insurance business which may only be carried out by Approved Persons as per the FSMA.
"**Disclosure and Transparency Rules**"	means the Disclosure and Transparency Rules as

	published under the FCA Handbook.
"**ECJ**"	means the European Court of Justice.
"**EEV Basis**"	means the European Embedded Value basis. This basis complies with the principles adopted by the CFO Forum, except that it has been extended to cover OEICs.
"**EIOPA**"	means the European Insurance and Occupational Pensions Authority.
"**Euroclear**"	means Euroclear Bank SA/NV.
"**FATCA**"	means sections 1471 through 1474 of the U.S. Internal Revenue Code.
"**FCA**"	means the Financial Conduct Authority.
"**FCA Handbook**"	means the book of rules and guidance maintained by the FCA.
"**Fitch**"	means Fitch Ratings Ltd. or, where the context requires, another ratings provider within the Fitch's group.
"**FCA**" or "**Financial Conduct Authority**"	means the Financial Conduct Authority (or any successor authority).
"**FSA**" or "**Financial Services Authority**"	means the Financial Services Authority prior to 1 April 2013.
"**FSCS**"	means UK Financial Services Compensation Scheme.
"**FSA Handbook**"	means the book of rules and guidance, including as to regulatory capital requirements, maintained by the FSA up to 31 March 2013.
"**FSMA**"	means the Financial Services and Markets Act 2000.
"**GENPRU**"	means the "General Prudential Sourcebook", which forms part of the PRA Handbook.
"**Global Certificate**"	means the global certificate by which the Notes will, upon issue, be represented.
"**Group**"	means the Issuer and its consolidated subsidiaries.
"**HMRC**"	means HM Revenue and Customs.
"**HM Treasury**"	means Her Majesty's Treasury.
"**ICAS**"	means Individual Capital Adequacy Standards.
"**IFRS**"	means International Financial Reporting Standards.
"**IMD**"	means the Insurance Mediation Directive (Directive 2002/92/EC).
"**IMD2**"	means the proposed amendments to the IMD regime via the Insurance Mediation Directive 2 published by the European Commission on 9 July 2012.
"**INSPRU**"	means the "Prudential Sourcebook for Insurers", which

	forms part of the PRA Handbook.
"**Insurance Groups Directive**"	means the Directive on the Supplementary Supervision of Insurance Companies in an Insurance Group (1998/78/EC).
"**Issuer**"	means Scottish Widows plc.
"**IT**"	means information technology.
"**LBG**"	means Lloyds Banking Group plc.
"**Listing Rules**"	means the Listing Rules under the FCA Handbook.
the "**Lloyds Banking Group**"	means LBG and its subsidiaries and subsidiary undertakings.
"**LP&I**"	means Life, Pensions and Investment.
"**London Stock Exchange**"	means the London Stock Exchange plc.
"**Long Term Fund**"	means a long term insurance fund as defined by INSPRU 1.2.22, which is a fund where assets are separately identified and maintained to cover the liabilities arising from the long-term insurance contracts written within the fund.
"**Long Term Insurance Capital Requirement**"	means an amount of capital resources that a firm must hold, as calculated in accordance with GENPRU and INSPRU.
"**Managers**"	means Barclays Bank PLC, Goldman Sachs International, Lloyds TSB Bank plc and Merrill Lynch International.
"**Market**"	means the London Stock Exchange's Regulated Market.
"**Member State**"	means a member state of European Economic Area.
"**MiFID**"	means the Markets in Financial Instruments Directive.
"**Moody's**"	means Moody's Investors Service Limited or, where the context requires, another ratings provider within the Moody's group.
"**New UK Tax Rules**"	means provisions contained in the Finance Act 2012.
"**Non-Life Directives**"	means the Directives on: (a) the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance (the "First Non-Life Directive", 73/239/EEC); (b) the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and laying down provisions to facilitate the effective exercise of freedom to provide services (the "Second Non-Life Directive", 88/357/EEC);

	(c) on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance (the "Third Non-Life Directive", 92/49/EEC), and other Directives amending or supplementing the above.
"**Non Participating Fund**"	means a separate long-term insurance fund, maintained within the Long Term Fund, where policyholders within it do not share in any surpluses generated.
"**Non Participating Sub-Fund**"	means a separate long-term insurance sub- fund, maintained within the Long Term Fund, where policyholders within it do not share in any surpluses generated.
"**Non Profit Sub-Fund**"	has the same meaning as "Non Participating Sub-Funds".
"**Non Transferred Business**"	means business written by the Issuer after the effective date of the scheme of transfer and therefore which was not transferred from SWFLAS to the Issuer under the terms of the scheme of transfer.
"**Notes**"	means the £650,000,000 7.00 per cent. Subordinated Notes due 2043 of the Issuer.
"**Official List**"	means the Official List of the UK Listing Authority.
"**OEIC**"	means an open ended investment company.
"**OFT**"	means the Office of Fair Trading.
"**Ogden discount rate**"	means the discount rate used to calculate lump sum awards in bodily injury cases.
"**PCWs**"	means price comparison websites.
"**Pillar I**"	means: (a) in relation to the current PRA Handbook, the capital resources requirement imposed on insurers pursuant to Chapters 1-5 of INSPRU; and (b) in relation to Solvency II, the requirements concerning technical provisions, the solvency capital requirement, the minimum capital requirement, the selection and valuation of assets and the forms of eligible capital.
"**Pillar II**"	means: (a) in relation to the current PRA Handbook, the ICAS rules; and (b) in relation to Solvency II, the requirements concerning supervisory reporting and the own risk and solvency assessment.
"**PPFM**"	means the Group's Principles and Practices of Financial

	Management.
"**PPOs**"	means periodic payment orders. The Courts Act 2003, implemented in 2005, introduced the ability to award periodic payments orders instead of lump sums in large bodily injury cases. Periodic payment orders replace a lump sum with an index linked amount payable to a claimant annually either for a period of time or for the rest of his/her life.
"**PRA**"	means the Prudential Regulation Authority (or any successor authority).
"**PRA Handbook**"	means the book of rules and guidance, including as to regulatory capital requirements, maintained by the PRA.
"**PRIPs**"	means packaged retail investment products.
"**Prospectus**"	means this Prospectus dated 12 April 2013.
"**Prospectus Directive**"	means Directive 2003/71/EC.
"**Prospectus Rules**"	means the Prospectus Rules under the FCA Handbook.
"**RDR**"	means the retail distribution review conducted by the UK Treasury Select Committee.
"**Reinsurance Directive**"	means the Directive concerning reinsurance (2005/68/EC).
"**Register**"	means the register, maintained by the Registrar, of the registered holders of the Notes.
"**Registrar**"	means Citibank, N.A., London Branch, as registrar in respect of the Notes.
"**Regulation S**"	means Regulation S under the Securities Act.
"**relevant entity**"	means a regulated UK bank, building society or other institution with permission to accept deposits pursuant to Part IV of the FSMA.
"**Relevant Nominee**"	means the nominee for the clearing systems, which shall be registered in the Register as holder of the Global Certificate on the Issue Date.
"**Rescue and other Personal Lines**"	means the rescue and other personal lines insurance segment of the business of the Group.
"**Securities Act**"	means the United States Securities Act of 1933, as amended.
"**Shareholder Fund**"	means a fund which contains assets and liabilities that belong wholly to shareholders and kept separate from the assets of the Long Term Fund.
"**Solvency II**"	means the Solvency II Framework Directive and implementation measures in respect thereof, establishing a new regime in relation to solvency

	requirements and other matters affecting the financial strength of insurers and reinsurers in the EU.
"**Solvency II Framework Directive**"	means the Directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (2009/138/EC).
"**SRR**"	means the special resolution regime under the Banking Act.
"**S&P**"	means Standard & Poor's Credit Market Services Europe Limited or, where the context requires, another ratings provider within the Standard & Poor's group.
"**SUP**"	Means the "Supervision" sourcebook, which forms part of the FCA Handbook.
"**SWFLAS**"	means Scottish Widows' Fund and Life Assurance Society.
"**SWFSH**"	means Scottish Widows Financial Services Holdings.
"**SWG**"	means Scottish Widows Group Limited.
"**SWIP**"	means the Scottish Widows Investment Partnership Limited.
"**SWRBS**"	means the Scottish Widows Retirement Benefit Scheme.
"**SWS**"	means Scottish Widows Services Limited.
"**Transferred Business**"	means business transferred from SWFLAS to the Issuer under the terms of the Scheme of Transfer.
"**Trust Deed**"	means the trust deed dated 16 April 2013 between the Issuer and the Trustee constituting the Notes.
"**Trustee**"	means The Law Debenture Trust Corporation p.l.c.
"**United Kingdom**" or "**UK**"	the United Kingdom of Great Britain and Northern Ireland.
"**Winding-Up Directive**"	means the Directive on the reorganisation and winding-up of insurance undertakings (2001/17/EC).
"**With Profits Actuary**"	means an actuary appointed to perform controlled function CF12A in the table of controlled functions, described more fully in SUP 4.3.16A R and SUP 10.7.17A R.
"**With Profits Business**"	means the business of an insurer (such as the Issuer) that may affect the amount or value of the assets comprising a With Profits Fund.
"**With Profits Funds**"	means a separate long-term insurance fund, maintained within the Long Term Fund, where with-profits policyholders are eligible to share in any surpluses arising.
"**With Profits Sub-Funds**"	means a separate long-term insurance sub-fund,

maintained within the Long Term Fund, where with-profits policyholders are eligible to share in any surpluses arising.

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