SCOTTISH WIDOWS GROUP LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2010

Member of Lloyds Banking Group plc

CONTENTS

COMPANY INFORMATION

Board of Directors

Lord A P Leitch (Chairman)

Dr N M Bryson
M Christophers
J Goford
A G Kane (Deputy Chairman)*
P D Loney*
K Luscombe*
A M Peck

Secretary

C M Herd

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Registered Office

69 Morrison Street
Edinburgh
EH3 8YF

Company Number

SC199547

* denotes Executive Director

DIRECTORS' REPORT

Principal activity and review of business

The Directors present the financial statements of Scottish Widows Group Limited ("the Company"), a limited liability company domiciled and incorporated in the United Kingdom whose principal activity is that of a holding company. The Company is a wholly owned subsidiary of Lloyds TSB Bank plc.

Purchase of subordinated debt (2010)

With effect from 29 June 2010, some of Lloyds Banking Group's equity investment in the Scottish Widows group, amounting to £800m, was replaced with debt investment which is tier 2 capital to mitigate the impact on Lloyds Banking Group's core tier 1 capital of expected future changes in capital requirements. The tier 2 capital, which takes the form of dated subordinated debt issued by Scottish Widows plc ("SW"), was purchased by the Company following receipt from Scottish Widows Financial Services Holdings ("SWFSH"), a subsidiary of the Company, of a dividend of £800m. Further information in respect of these transactions is given in note 8.

Demutualisation transactions (2010)

According to the terms of the demutualisation and Scheme of Transfer (the "Scheme") in respect of the demutualisation of the Scottish Widows' Fund and Life Assurance Society ("SWFLAS"), a Members' Account ("MA") was maintained by SWFSH. This account was in respect of compensation attributable to former Members of SWFLAS, which remained unclaimed. Under the terms of the Scheme, the MA could be closed following the tenth anniversary of the effective date of the Scheme of 3 March 2000.

Following completion of the required governance processes, the MA was closed on 8 December 2010. An amount of £110m, representing the majority of the remaining provision for compensation payments which remained unclaimed when the MA was closed, was subsequently paid from SWFSH to the Company by way of an interim dividend. A final interim dividend of £4.5m in respect of this transaction is expected to be paid from SWFSH in March 2011. An amount of £114.5m was also transferred from the SW Non Participating Fund to that company's With Profits Fund.

Following receipt of the dividend from SWFSH, the Company repaid part of a loan which it had received from Lloyds TSB Financial Services Limited, amounting to £100m.

Results and dividend

The result of the Company for the year ended 31 December 2010 is a profit after tax of £1,208,690,000 (2009: profit of £168,161,000) and this has been transferred to reserves. The Directors consider this result to be satisfactory in light of the activities of the Company during the year as set out above.

During the year, an ordinary interim dividend of £235,000,000 was paid (2009: ordinary dividends totalling £187,000,000). The Directors recommend the payment of an interim dividend of £261,000,000 in respect of the year ended 31 December 2010, subject to the receipt from SWFSH of a dividend of at least £189,000,000.

Key performance indicator

Dividends totalling £1,192,000,000 were received from subsidiary undertakings (2009: dividends totalling £168,000,000).

The Directors consider that dividends receivable is the key performance indicator appropriate to the principal activity of the Company. In addition, the Directors are of the opinion that the information presented in the financial statements as a whole provides the management information necessary for the Directors to understand the development, performance and position of the business of the Company.

The Company also forms part of the Insurance Division of Lloyds Banking Group plc ("LBG"). The development, performance and position of this Division are discussed in LBG's annual report, which does not form part of this report.

Future outlook

The Directors consider that the Company's principal activity will continue unchanged in the foreseeable future.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The financial risk management objectives and policies of the Company and the exposure to credit, financial soundness and market risk are set out in note 15.

Directors

The names of the current Directors are listed on page 2. Changes in directorships during the year and since the end of the year are as follows:

A D Briggs	(resigned 31 March 2010)
J McConville	(resigned 31 March 2010)
K Luscombe	(appointed 6 April 2010)
M Christophers	(appointed 27 April 2010)
A M Peck	(appointed 27 April 2010)

Particulars of the Directors' emoluments are set out in note 16.

Three (2009: two) of the Directors have entered into individual contracts of indemnity with LBG which constitute "qualifying pension scheme indemnity provisions" for the purposes of the Companies Act 2006. Two of these contracts were in force during the whole of the financial year and one came into force during the year. All contracts remain in force. The contracts are available for inspection at the registered office of Lloyds Banking Group plc. Details of the registered office are given in note 16.

All of the Directors (2009: two) have the benefit of a contract of indemnity which constitutes a "qualifying third party indemnity provision". Two of these contracts were in force for the whole of the financial year and the remainder came into force during the financial year. All contracts remain in force. The contracts are available for inspection at the registered office of Lloyds Banking Group plc. Details of the registered office are given in note 16.

Disclosure of information to auditors

Each Director confirms that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. Relevant information is defined as "information needed by the Company's auditors in connection with preparing their report".

Each Director has taken all the steps that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted in accordance with, the provisions of section 418 of the Companies Act 2006.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board of Directors

Catherina M Herd

C M Herd
16 February 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SCOTTISH WIDOWS GROUP LIMITED

We have audited the financial statements of Scottish Widows Group Limited for the year ended 31 December 2010 which comprise the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and Auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Catrin Thomas (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
17 February 2011

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £000	2009 £000
Revenue			
Income from shares in subsidiary undertakings		1,192,000	168,000
Interest receivable and similar income	2	24,290	781
Gains on liquidation of subsidiaries	3	-	881
Total revenue		1,216,290	169,662
Expenses			
Finance costs	5	(804)	(1,282)
Total expenses		(804)	(1,282)
Profit before tax		1,215,486	168,380
Taxation charge	6	(6,796)	(219)
Profit for the year		1,208,690	168,161

There are no items of comprehensive income which have not already been presented in arriving at the profit for the year. Accordingly, the profit for the year is the same as total comprehensive income for the year.

The notes set out on pages 10 to 23 are an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2010

	Notes	2010 £000	2009 £000
ASSETS			
Non-current assets			
Investments in subsidiaries	7	8,336,581	8,336,581
Investments in debt securities	8	800,000	-
Current assets			
Financial assets:			
Loans and receivables	9	444	32
Amounts due from Group undertakings	16	664	-
Cash and cash equivalents	10	152,492	85,157
Total assets		9,290,181	8,421,770
EQUITY AND LIABILITIES			
Capital and reserves attributable to Company's shareholder			
Share capital	11	6,822,723	6,822,723
Retained earnings		1,114,039	140,349
Total equity		7,936,762	6,963,072
Liabilities			
Non-current liabilities			
Financial liabilities:			
Amounts due to Group undertakings	16	1,329,560	1,339,480
Other financial liabilities	12	16,839	16,839
Current liabilities			
Financial liabilities:			
Amounts due to Group undertakings	16	-	102,046
Current tax payable		7,020	333
Total liabilities		1,353,419	1,458,698
Total liabilities and shareholder's equity		9,290,181	8,421,770

Approved by the Board on 16 February 2011

K Luscombe
Director

The notes set out on pages 10 to 23 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £000	2009 £000
Cash flows from operating activities			
Profit before tax		1,215,486	168,380
Adjustments for:			
Preference share dividend paid	16	804	1,282
Investment income		(23,774)	-
Net increase in operating assets and liabilities	13	(113,042)	(1,025)
Taxation paid		(109)	(637)
Net cash flows from operating activities		1,079,365	168,000
Cash flows from investing activities			
Purchase of subordinated debt	8	(800,000)	-
Investment income		23,774	-
Net cash flows from investing activities		(776,226)	-
Cash flows from financing activities			
Ordinary dividends paid	14	(235,000)	(187,000)
Preference share dividend paid		(804)	(1,282)
Net cash flows from financing activities		(235,804)	(188,282)
Net increase / (decrease) in cash and cash equivalents		67,335	(20,282)
Cash and cash equivalents at the beginning of the year		85,157	105,439
Net cash and cash equivalents at the end of the year	10	152,492	85,157

The notes set out on pages 10 to 23 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	Share capital	Retained earnings	Total
		£000	£000	£000
Balance as at 1 January 2009		6,822,723	159,188	6,981,911
Total comprehensive income for the year		-	168,161	168,161
Dividends paid	14	-	(187,000)	(187,000)
Balance as at 31 December 2009		6,822,723	140,349	6,963,072
Total comprehensive income for the year		-	1,208,690	1,208,690
Dividends paid	14	-	(235,000)	(235,000)
Balance as at 31 December 2010		6,822,723	1,114,039	7,936,762

All of the above amounts are attributable to the equity holder of the Company.

The notes set out on pages 10 to 23 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. Accounting policies

Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results.

The financial statements comprise the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity and the related notes.

The significant accounting policies adopted in the preparation of the financial statements, which have been consistently applied to all periods presented in these financial statements unless stated otherwise, are set out below.

(a) Basis of preparation

The financial statements of the Company have been prepared:

(1) in accordance with the International Accounting Standards ("IASs") and IFRSs issued by the International Accounting Standards Board and the Standards and Interpretations ("SICs") and International Financial Reporting Interpretations ("IFRICs") issued by its International Financial Reporting Interpretations Committee, as endorsed by the European Union;

(2) in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs; and

(3) under the historical cost convention.

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

As the Company is a wholly owned subsidiary undertaking of Lloyds TSB Bank plc, registered in the United Kingdom, the Company has taken advantage of the provisions of the Companies Act 2006 and has not produced consolidated financial statements.

Standards and interpretations effective in 2010

A number of standards, amendments to or interpretations of published standards which have the potential to impact on the Company's operations have been issued and are mandatory for accounting periods beginning on or after 1 January 2010. Their relevance to the Company's operations is assessed at note 19.

Details of standards and interpretations in issue but which have not been adopted early are set out at note 20. The Company has not presented three balance sheets in these financial statements because it has not applied an accounting policy retrospectively, made a retrospective restatement of items in the balance sheet or reclassified items in the financial statements that affected the balance sheet at the beginning of the earliest comparative period.

(b) Financial assets and financial liabilities

Management determines the classification of its financial assets and financial liabilities at initial recognition. Management's policies for the recognition of specific financial assets and financial liabilities, as identified on the balance sheet, are set out under the relevant accounting policies.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all of the risks and rewards of ownership. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

All financial assets and financial liabilities are designated at fair value through income, with the exception of certain loans and receivables, investments and other financial liabilities which are stated at amortised cost (as described in policies (f), (g) and (l) below).

No assets are classified as held-to-maturity, available-for-sale or for trading; no liabilities are classified as held for trading.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(c) Revenue recognition

Investment income

Dividends receivable in respect of the Company's investments in subsidiary undertakings are recognised when received. All dividends received are recognised through the statement of comprehensive income, within income from shares in subsidiary undertakings.

Interest income for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within interest receivable and similar income.

(d) Expense recognition

Operating expenses

Operating expenses are recognised in the statement of comprehensive income as incurred, within operating expenses.

Finance costs

Interest expense for all interest-bearing financial instruments is recognised in the statement of comprehensive income as it accrues, within finance costs.

Dividends payable

Dividends payable on ordinary shares are recognised in equity in the period in which they are approved.

(e) Investment in subsidiaries

The Company owns a number of subsidiaries, as set out in note 7. These companies trade with a view to making a profit, and the risks and rewards of owning these subsidiaries primarily rest with the shareholder of the Company. These subsidiaries are held initially at cost, being the fair value of the consideration given to acquire the holding, then subsequently at cost subject to impairment. Further information on the Company's impairment policy is set out at policy (i).

(f) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within loans and receivables.

A charge for impairment in respect of loans and receivables would be made in the statement of comprehensive income when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. The impairment charge would be recognised in that part of the statement of comprehensive income in which the original transaction was reported. Further information on the Company's impairment policy is set out at policy (i).

(g) Investments at amortised cost

Investments at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and comprise a holding of dated subordinated debt.

Investments are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, subject to impairment. In practice, the carrying value of these investments equates to the fair value due to the redemption criteria associated with these instruments.

A charge for impairment in respect of investments would be made in the statement of comprehensive income when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Further information on the Company's impairment policy is set out at policy (i).

(h) Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term, highly liquid investments with original maturities of three months or less.

(i) Impairment

Financial assets

The carrying value of all financial assets held at amortised cost is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable fair prices and expected net selling prices.

In order to determine whether financial assets are impaired, all financial assets for which the fair value has fallen below the recoverable amount (assessed using cost price and the factors above), either by a significant amount or for a prolonged period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and due to issuer-specific developments. The impairment review focuses on issuer-specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Company's long term investment strategy.

Non-financial assets

Non-financial assets, relating to the Company's investments in subsidiaries, are tested annually for impairment.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is charged to the relevant line in the statement of comprehensive income in the period in which it occurs.

Impairment process

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract;
(iii) the disappearance of an active market for that asset because of financial difficulties; or
(iv) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of assets since the initial recognition of those assets, even where the decrease cannot yet be identified with the individual assets of the Company, including:
  - adverse changes in the payment status of issuers or debtors; or
  - national or local economic conditions that correlate with defaults on the assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

(j) Taxes

Tax on the profit or loss for the year is recognised in the statement of comprehensive income within taxation and comprises only current tax. No provision for deferred tax is required under IAS 12 "Income Taxes" as no timing differences arise which would result in deferred tax on assets and liabilities.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, together with adjustments to estimates made in prior years.

(k) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

(l) Other financial liabilities

Other financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost. In practice, the carrying value of these balances equates to the fair value due to the short-term nature of the amounts included within other financial liabilities.

2. Interest receivable and similar income

	2010 £000	2009 £000
Interest receivable on deposits and investments in a cash fund	516	781
Interest receivable on investments in debt securities	23,774	-
Total	24,290	781

3. Gains on liquidation of subsidiaries

During the prior year, two of the Company's non-trading subsidiaries were liquidated as part of a group wide project to liquidate companies which are no longer required. As these subsidiaries were carried at cost, a small gain of £881,000 arose on liquidation, representing the excess of net assets in these companies at the date of liquidation over the carrying value previously recognised in line with accounting policy 1(e). This gain was recognised within gains on liquidation of subsidiaries in the statement of comprehensive income.

4. Operating expenses

(a) The remuneration of the Auditors for the year in respect of audit work is borne by Scottish Widows Services Limited ("SWS"). The fees payable in respect of the audit of the statutory accounts of the Company are £6,176 (2009: £5,500) and fees in respect of other services provided pursuant to legislation are £6,176 (2009: £5,500). There were no fees relating to non-audit services paid to the Auditors during the year (2009: £nil).

(b) The administration of the Company is undertaken by SWS. A recharge is levied from this undertaking to the Company when costs are incurred on behalf of the Company. The Company incurred no administration recharge during the year (2009: £nil).

(c) The Company had no direct employees during the year (2009: nil).

5. Finance costs

	2010 £000	2009 £000
Dividend paid on preference shares	804	1,282
Total	804	1,282

6. Taxation

(a) Current year tax charge

	2010 £000	2009 £000
Current tax:		
UK corporation tax	6,796	219
Total current tax	6,796	219

(b) Reconciliation of tax charge

	2010 £000	2009 £000
Profit before tax	1,215,486	168,380
Tax at 28% (2009: 28%)	340,336	47,146
Effects of:		
Untaxed income:		
Income from shares in subsidiary undertakings	(333,760)	(47,040)
Disallowed finance costs	225	359
Capital gain on liquidation of subsidiaries	-	(246)
Other	(5)	-
Total	6,796	219

7. Investments in subsidiaries

Investments in subsidiary undertakings are as follows:

	2010 £000	2009 £000
At 1 January	8,336,581	8,346,455
Liquidation of subsidiaries	-	(9,874)
At 31 December	8,336,581	8,336,581

The Company owns the whole of the issued ordinary share capital of the following subsidiaries at the reporting date, all of which operate in the United Kingdom:

Name	Class of Share	Percentage held	Country of Registration or Incorporation	Nature of Business
Scottish Widows Financial Services Holdings	Ordinary	100	Scotland	Holding
Scottish Widows Bank plc	Ordinary	100	Scotland	Bank
Scottish Widows Fund Management Limited	Ordinary	100	Scotland	Non trading
Lloyds TSB Financial Services Limited	Ordinary	100	England	Holding
Scottish Widows Investment Partnership Group Limited	Ordinary	100	England	Holding
Target Holdings Limited	Ordinary and Deferred	100	England	Non trading

The above subsidiaries operate in the United Kingdom. The ability of regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by regulatory solvency requirements. The ability of non-regulated entities to pay cash dividends to the Company or repay loans or advances is restricted by Companies Act distributable reserves requirements.

8. Investments in debt securities

	2010 £000	2009 £000
Subordinated debt	800,000	-
Total	800,000	-

During June 2010, the Company purchased £800m of floating rate unquoted subordinated notes issued by SW. Redemption of the notes is due in 2040. However, the notes may be redeemed by SW at an earlier date provided that certain conditions, including the provision by SW of six months' written notice of the intention to redeem, are met. Interest is receivable on a quarterly basis at a rate of 3 month LIBOR plus 5.1%.

9. Loans and receivables

	2010 £000	2009 £000
Accrued interest	444	32
Total	444	32

None of the above balances are interest-bearing (2009: none).

There is no significant concentration of credit risk with respect to loans and receivables. Further information in respect of credit risk is given in note 15.

10. Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows include the following:

	2010 £000	2009 £000
Cash at bank	-	1
Investments in a cash fund	152,492	85,156
Total	152,492	85,157

11. Share capital

	2010 £000	2009 £000
Authorised share capital:		
697,672,300,000 ordinary shares of 1p each	6,976,723	6,976,723
Allotted, called up and fully paid share capital:		
682,272,300,000 ordinary shares of 1p each	6,822,723	6,822,723

In addition, the Company has authorised and issued preference shares which, in accordance with the requirements of IAS 32 "Financial Instruments: Presentation" ("IAS 32"), have been accounted for as a debt liability. Both the nominal value of these shares and the related share premium recorded at the date of issue have been categorised as other financial liabilities.

The irredeemable preference shares of £0.01 each, classified as debt under IAS 32, which do not carry voting rights, were issued creating a share premium of £16,674,486. Shareholders are entitled to receive cumulative preferential dividends for every twelve month period. On winding up, the preference shareholders rank above ordinary shareholders and are entitled to receive the nominal value paid up on each such irredeemable preference share, any dividends due but unpaid in respect of their shares, and a sum of £0.99 per irredeemable preference share held by them.

	2010 £000	2009 £000
Authorised share capital:		
2,243,200,000 irredeemable preference shares of 1p each	22,432	22,432
Allotted, called up and fully paid share capital:		
16,464,932 irredeemable preference shares of 1p each	165	165

There were no changes in share capital during the year.

12. Other financial liabilities

	2010 £000	2009 £000
Irredeemable preference shares (including share premium at note 11)	16,839	16,839
Total	16,839	16,839

13. Increase in operating assets and liabilities

	2010 £000	2009 £000
(Increase) / decrease in operating assets:		
Investments in subsidiary undertakings	-	9,874
Financial assets:		
Loans and receivables	(412)	155
Amounts due from Group undertakings	(664)	-
Net (increase) / decrease in operating assets	(1,076)	10,029
Decrease in operating liabilities:		
Amounts due to Group undertakings	(111,966)	(11,054)
Net decrease in operating liabilities	(111,966)	(11,054)
Net increase in operating assets and liabilities	(113,042)	(1,025)

14. Dividends paid

	2010 £000	2009 £000
Total dividends paid on equity shares	235,000	187,000

The dividends paid in 2010 amounted to a total of 0.034 pence per ordinary share (2009: 0.027 pence per ordinary share).

The ordinary dividend paid in 2010 comprised the dividend approved in respect of the year ended 31 December 2009.

A dividend of £261,000,000 (0.038 pence per share) is proposed in respect of the year ended 31 December 2010.

15. Risk management

The Company acts as a holding company. This note summarises the risks associated with the activities of the Company and the way in which the Company manages them.

(a) Governance framework

The Company is part of the Insurance Division of Lloyds Banking Group. This Division has established a risk management function with responsibility for implementing the Lloyds Banking Group risk management framework within the Scottish Widows Group.

The approach to risk management ensures that there is effective independent checking or "oversight" of key decisions through the operation of a "three lines of defence" model. The first line of defence is line management, who have direct accountability for risk decisions. Risk provide oversight and challenge and form the second line of defence. Internal Audit constitutes the third line of defence, which provides the required independent assurance to the Audit Committee and the Board that risks within the Group are recognised, monitored, and managed within acceptable parameters.

An enterprise-wide risk management framework for the identification, assessment, measurement and management of risk is in place. The framework is in line with Lloyds Banking Group's risk management principles and covers the full spectrum of risks that the Company is exposed to. Under this framework, risks are categorised according to an approved Lloyds Banking Group risk language which has been adopted across the Group. This covers the principal financial risks faced by the Group, including the exposures to market, credit and financial soundness risk. The performance of the Company and the strategic management of the business depend on its ability to manage these risks.

Lloyds Banking Group retains primary responsibility for the management of investment risks arising in respect of the shareholder funds within the Group. These funds are managed in line with the Lloyds Banking Group and Scottish Widows risk policies. Responsibility for the management of all other risks resides with the Board of each Group company who (with the exception of Scottish Widows International Limited, where the Board approves risk policy directly) have delegated their authority to the LP&I Executive Committee.

Policy owners, identified from appropriate areas across the business, are responsible for drafting the Lloyds Banking Group risk policies, for ensuring that they remain up-to-date and for facilitating any changes. These policies are subject to at least an annual review, or earlier if deemed necessary. Limits are prescribed within which those responsible for the day to day management of the Company can take decisions. Line management are required to follow prescribed reporting procedures to the bodies responsible for monitoring compliance with policy and controlling the risks.

(b) Financial risks

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. In particular, the key financial risk is that the Company's investment in subordinated debt is no longer considered to be recoverable. The most important components of financial risk are credit, market and financial soundness risk.

The market risk that the Company primarily faces due to the nature of its assets and liabilities is interest rate risk.

The Company manages these risks in a number of ways, including monitoring of cash flow requirements and the use of financial instruments.

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. The summary of significant accounting policies (note 1) describes how the classes of financial instruments are measured and how income and expenses are recognised.

The following tables analyse the carrying amount of assets and liabilities, with financial assets and financial liabilities being presented according to their IAS 39 "Financial Instruments: Recognition and Measurement" classification:

	2010 £000	2009 £000
Financial assets		
Cash and cash equivalents	152,492	85,157
At amortised cost:		
Loans and receivables	444	32
Amounts due from Group undertakings	664	-
Investments in debt securities	800,000	-
	953,600	85,189
Other assets		
Investments in subsidiary undertakings	8,336,581	8,336,581
	8,336,581	8,336,581
Total assets	9,290,181	8,421,770

	2010 £000	2009 £000
Financial liabilities		
At amortised cost:		
Amounts owed to Group undertakings	1,329,560	1,441,526
Other financial liabilities	16,839	16,839
	1,346,399	1,458,365
Other liabilities		
Current tax payable	7,020	333
	7,020	333
Total liabilities	1,353,419	1,458,698

The current tax payables in the above table include £7,020,000 (2009: £333,000) in respect of group relief for income tax which is payable to other companies within the Lloyds Banking Group.

A maturity analysis of the financial liabilities set out in the above tables is given in the liquidity risk section of this note.

The sensitivity analysis given in this note in respect of interest rate risk is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in an assumption may be correlated. The sensitivity analysis presented also represents, in accordance with the requirements of IFRS 7 "Financial Instruments: Disclosures", management's assessment of a reasonably possible alternative in respect of each sensitivity, rather than worst case scenario positions.

(1) Credit risk

Credit risk is the risk of reductions in earnings and/or value, through financial or reputational loss, as a result of the failure of the party with whom the Company has contracted to meet its obligations.

Credit risk is managed in line with the Lloyds Banking Group Credit Risk Policy.

Investment counterparty default risk arises primarily from holding subordinated debt issued by SW, a company regulated by the Financial Services Authority which has a significant excess of capital over and above minimum regulatory requirements, which include an assessment of stress conditions to SW. The risk of default is not therefore considered to be significant.

The following table sets out details of those assets which bear credit risk.

	2010 £000	2009 £000
Loans and receivables	444	32
Investments in debt securities	800,000	-
Amounts due from Group undertakings	664	-
Cash and cash equivalents	152,492	85,157
Total assets bearing credit risk	953,600	85,189

The tables below analyse financial assets subject to credit risk using Standard & Poor's rating or equivalent.

As at 31 December 2010

	Total £000	AAA £000	AA £000	A £000
Loans and receivables	444	59	-	385
Investments in debt securities	800,000	-	-	800,000
Amounts due from Group undertakings	664	-	-	664
Cash and cash equivalents	152,492	152,492	-	-
Total	953,600	152,551	-	801,049

As at 31 December 2009

	Total £000	AAA £000	AA £000	A £000
Loans and receivables	32	32	-	-
Cash and cash equivalents	85,157	85,156	1	-
Total	85,189	85,188	1	-

There were no past due or impaired assets at 31 December 2010 or 31 December 2009. No terms in respect of financial assets had been renegotiated at 31 December 2010 or 31 December 2009.

(2) Financial soundness risk

Financial soundness risk covers the risk of financial failure, reputational loss or loss of earnings and/or value arising from a lack of liquidity, funding or capital and/or the inappropriate recording, reporting or disclosure of financial, taxation and regulatory information.

(i) Financial reporting, tax and disclosure risks

The Company is exposed to the risk that policies and procedures are not sufficient to maintain adequate books and records to support statutory and tax reporting and to prevent and detect financial reporting fraud.

Lloyds Banking Group has developed procedures to ensure that compliance with both current and potential future requirements are understood and that policies are aligned to its risk appetite. Lloyds Banking Group maintains a system of internal controls, consistently applied, providing reasonable assurance that transactions are recorded and undertaken in accordance with delegated authorities that permit the preparation and disclosure of financial statements and tax returns in accordance with IFRSs, statutory and regulatory requirements.

The Lloyds Banking Group undertakes a programme of work designed to support an annual assessment of the effectiveness of internal controls over financial reporting, to identify tax liabilities and to assess emerging legislation and regulation.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its financial commitments as they fall due, or can secure them only at an excessive cost. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from the inability to generate cash inflows as anticipated.

Liquidity risk has been analysed as arising from the settlement of intercompany balances.

Liquidity risk is managed in line with the Lloyds Banking Group Funding and Liquidity Risk Policy.

All of the Company's financial assets, as identified on page 17, are recoverable within one month. The subordinated debt issued by SW, which the Company acquired in June 2010, is redeemable in 2040. However, the terms of the debt issue provide that SWG may sell the debt to another LBG company. The non-financial assets of the Company, which substantially comprise investments in wholly owned subsidiary undertakings, have no fixed maturity. If a requirement arose to settle all of the liabilities of the Company simultaneously, the Company would need to sell some of its investments to realise cash with which to settle its liabilities or obtain funding from another Group company.

The following tables indicate the timing of the contractual cash flows arising from the Company's financial liabilities, as required by IFRS 7:

As at 31 December 2010

		Contractual cash flows (undiscounted)	
Carrying amount and cash flows arising from:	**Carrying amount £000**	**No stated maturity £000**	**Less than 1 month £000**
Amounts owed to Group undertakings	1,329,560	-	1,329,560
Other financial liabilities	16,839	16,839	-
Total	1,346,399	16,839	1,329,560

As at 31 December 2009

		Contractual cash flows (undiscounted)	
Carrying amount and cash flows arising from:	**Carrying amount £000**	**No stated maturity £000**	**Less than 1 month £000**
Amounts owed to Group undertakings	1,441,526	-	1,441,526
Other financial liabilities	16,839	16,839	-
Total	1,458,365	16,839	1,441,526

The balances owed to Group undertakings are repayable on demand and therefore classified as due in less than one month in the analysis of contractual cash flows set out in the above tables. However, it is not expected that repayment of these balances, which arose either on demutualisation or from a group restructuring which took place in 2002, will be sought within the next 12 months. These amounts have therefore been classified on the face of the balance sheet as amounts payable in more than one year. Further details are set out in note 16.

None of the above financial liabilities are sensitive to interest rate movements.

(iii) Capital risk

Capital risk is defined as the risk that:

- the Company has insufficient capital to provide a stable resource to absorb all capital losses up to a confidence level defined in the risk appetite;
- the Company loses reputational status by having capital that is regarded as inappropriate, either in quantity, type of distribution; and/or
- the capital structure is inefficient.

The Company's objectives when managing capital are to ensure that sufficient capital is available to safeguard the Company's ability to continue as a going concern so that it can continue to provide a return to the shareholder and, indirectly, to support the Group's regulatory capital requirements.
The Company manages the capital structure and makes adjustments to reflect changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets.

The Company's capital comprises all components of equity, movements in which are set out in the statement of changes in equity and includes preference shares (notes 11 and 12) accounted for as liabilities in accordance with the requirements of IAS 32.

(3) Market risk

Market risk is the risk of reductions in earnings and/or value, through financial or reputational loss, from unfavorable market movements. This typically arises from fluctuations in market prices (equity and property risk), market interest rates (interest rate risk) and foreign exchange rates (foreign exchange risk), whether such changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in interest rates and the shape of the yield curve. Interest rate risk arises in respect of cash balances which are either held on deposit or invested in a cash fund and investments at amortised cost. None of the other financial assets or financial liabilities of the Company are interest-bearing.

If interest rates were to increase or decrease by 25 basis points, the impact on profit and loss after tax would be an increase or decrease respectively of £1,684,000 (2009: increase or decrease respectively of £123,000) in respect of interest-bearing financial assets and financial liabilities.

The Company is not exposed to equity, property or foreign exchange risk through its financial assets and financial liabilities.

(4) Risk associated with investment in subsidiaries

The Company owns various subsidiary undertakings, the carrying values of which are assessed for reasonableness at least once in each financial year. Any impairment in the value of these investments could result in a significant financial exposure of the Company. The underlying activity in the subsidiary undertakings is regularly monitored and any implications on the financial position of the Company assessed. All subsidiaries of the Company are managed in accordance with Lloyds Banking Group risk policies to mitigate against any unforeseen circumstances.

The Company has no other significant risk exposures.

16. Related party transactions

(a) Ultimate parent and shareholding

The Company's immediate parent undertaking is Lloyds TSB Bank plc, a company registered in the United Kingdom.

The Company's ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the Lloyds Banking Group plc financial statements in which the Company is consolidated can be obtained from the Group Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.

(b) Transactions and balances with related parties

Transactions between the Company and other companies in the Lloyds Banking Group

The Company has entered into the following transactions with other related parties during the year and holds the following balances with other related parties at the end of the year:

	Transactions in the Year		Outstanding Balance at 31 December	
	2010	2009	2010	2009
	£000	£000	£000	£000
Relationship				
Parent company:				
Dividends paid	(235,000)	(187,000)	-	-
Subsidiary undertaking:				
Intercompany creditor balances	-	-	(1,192,230)	(1,304,150)
Gain on liquidation of subsidiaries	-	881	-	-
Dividends received	1,192,000	168,000	-	-
Other related parties:				
Bank account balances	-	-	-	1
Investments in debt securities	-	-	800,000	-
Cash and cash equivalents	-	-	152,492	85,156
Intercompany debtor balances	-	-	664	-
Intercompany creditor balances	-	-	(137,330)	(137,377)
Interest income	24,290	781	444	32
Preference dividends paid	(804)	(1,282)	-	-
Preference shares	-	-	(16,839)	(16,839)

The above balances are unsecured in nature and are expected to be settled in cash.

Transactions between the Company and key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company which, for the Company, are the Directors and the LP&I Executive.

Transactions between the key management personnel of the Company and parties related to them as defined by IAS 24 "Related Party Disclosures" are as follows:

Key management compensation:

	2010 £000	2009 £000
Salaries and other short-term benefits	1,926	2,135
Post-employment benefits	140	222
Share-based payments	380	237
Total	2,446	2,594

Certain members of key management in the Company, including the highest paid director, provide services to other companies within the Lloyds Banking Group. In such cases, for the purposes of this note, figures have been included based on an apportionment to the Company (including the subsidiaries of the Company of which the key management personnel are also Directors) of the total compensation earned.

Of the amount disclosed above, £306,000 is in respect of Directors of Scottish Widows Group Limited (2009: £60,000). Retirement benefits are accruing to three Directors (2009: three) under defined benefit pension schemes. No Directors (2009: one) are paying into a defined contribution scheme.

During the year £nil (2009: £65,000) was paid to Directors of the Company as compensation for loss of office.

Detail regarding the highest paid Director is as follows:

	2010 £000	2009 £000
Apportioned aggregate emoluments	154	27
Defined benefits pension scheme accrued benefit at 31 December	1	1

The highest paid Director exercised share options during the year and was granted shares in respect of qualifying service during the year. This was also the case in the prior year.

The vast majority of total services provided by key management is in respect of SW. No apportionment of key management compensation is made to the Company. The disclosures above are provided to comply with the requirements of the Companies Act 2006 in respect of the disclosure of key management compensation in the financial statements of a parent company.

Certain members of key management in the Company, including the highest paid director, provide services to other companies within the Lloyds Banking Group. In such cases, for the purposes of this note, details of other transactions between the Company and key management (including the subsidiaries of the Company of which the key management personnel are also Directors) are disclosed in the financial statements of Scottish Widows plc.

Other transactions

HM Treasury

In January 2009, HM Treasury became a related party of the Company following its subscription for ordinary shares in LBG, the Company's ultimate parent company, issued under a placing and open offer. As at 31 December 2010, HM Treasury held a 41 percent (2009: 43 per cent) interest in LBG's ordinary share capital and, consequently, HM Treasury remained a related party of the Company throughout 2010.

There were no material transactions between the Company and HM Treasury during the year (2009: none) that were not made in the ordinary course of business or that are unusual in their nature or conditions. In addition, the Company has entered into transactions with HM Treasury on an arm's length basis including, but not exclusively in relation to, the payment of corporation tax, employment tax, and value added tax. Owing to the volume and diversity, such transactions are not disclosed.

17. Share-based payments

During the year ended 31 December 2010, the Company's ultimate parent company operated share-based payment schemes, all of which are equity settled. Further details in respect of these schemes can be found in the financial statements of that company.

18. Events after the reporting date

The Finance Act 2010 reduced the rate of corporation tax from 28% to 27% with effect from 1 April 2011. As the Company does not have any deferred tax liabilities, the impact of this reduction in tax rate will be reflected in the financial statements for the year ended 31 December 2011, when the reduced rate will be applied in calculating the tax charge for that year.

19. Standards and interpretations effective in 2010

The Company has adopted the following new standards and amendments to standards which became effective for financial years beginning on or after 1 January 2010. None of these standards or amendments has had a material impact on these financial statements.

(i) IFRIC 17 "Distributions of Non-cash Assets to Owners". Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative).

(ii) "Improvements to IFRSs" (issued April 2009). Sets out minor amendments to IFRSs as part of the annual improvements process.

Details of those IFRSs pronouncements which will be relevant to the Company but which were not effective at 31 December 2010 and which have not been applied in preparing these financial statements are given in note 20.

20. Future accounting developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2010 and have not been applied in preparing these financial statements. The full impact of these accounting changes is being assessed by the Company. The initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements.

Pronouncement	Nature of change	IASB effective date
"Improvements to IFRSs" (issued May 2010)	Sets out minor amendments to IFRS standards as part of the annual improvements process.	Dealt with on a standard by standard basis but none are effective any earlier than annual periods beginning on or after 1 July 2010.
IAS 24 "Related Party Disclosures"[1]	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011.
IFRS 9 "Financial Instruments: Classification and Measurement"[1]	Replace those parts of IAS 39: 'Financial Instruments: Recognition and Measurement' relating to the classification , measurement and derecognition of financial assets and liabilities. It requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instrument. The available-for-sale financial asset and held-to-maturity investment categories in the existing IAS 39 will be eliminated. The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39. IFRS 9 is the initial stage of the project to replace IAS 39. Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39.	Annual periods beginning on or after 1 January 2013.

[1] At the date of this report, these pronouncements are awaiting EU endorsement.