

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE CAPITAL SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE CAPITAL SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the Capital Securities described herein, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act). The Prospectus is being sent at your request and by accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to The Royal Bank of Scotland plc, HSBC Bank plc and Merrill Lynch International (the “**Joint Lead Managers**”) and Société Générale (the “**Co-Lead Manager**”) and together with the Joint Lead Managers, the “**Managers**”) that you are not a U.S. person, your stated electronic mail address to which this e-mail has been delivered is not located in the U.S. and that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the issue of the Capital Securities described herein do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the issue of the Capital Securities described herein be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the issue of the Capital Securities described herein shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Managers.



LEGAL & GENERAL GROUP PLC

(incorporated with limited liability in England and Wales, with registered number 1417162)

£600,000,000 Perpetual Preferred Callable Capital Securities

Issue Price: 100.00 per cent.

The £600,000,000 Perpetual Preferred Callable Capital Securities (the “Capital Securities”) of Legal & General Group Plc (the “Issuer”) will bear interest, payable semi-annually in arrear in equal instalments on 2 May and 2 November in each year, from and including 2 May 2007 to but excluding 2 May 2017 at the rate of 6.385 per cent. per annum. From and including 2 May 2017, the Capital Securities will bear interest at a rate reset quarterly of 1.93 per cent. per annum above the London interbank offered rate for three-month sterling deposits, payable quarterly in arrear on the Interest Payment Dates (as defined in the Terms and Conditions of the Capital Securities) falling in February, May, August and November in each year, all as more particularly described in “Terms and Conditions of the Capital Securities — 4. Interest Payments”. Interest Payments (as defined in the Terms and Conditions of the Capital Securities) may be deferred at the option of the Issuer as described in “Terms and Conditions of the Capital Securities — 5. Interest Deferral”, and all payments are subject to the Issuer being solvent at the time of payment, as described in “Terms and Conditions of the Capital Securities — 3(a). Subordination — Conditions to Payment”.

If the Interest Payment scheduled to be made on any Interest Payment Date is not made, the Issuer shall not declare or pay any distribution or make any other payment on any Junior Securities or (subject as provided herein) any Parity Securities, or redeem or acquire any Junior Securities or Parity Securities unless or until the Issuer next pays in full the Interest Payment due on an Interest Payment Date or, if earlier, any Optional Deferred Interest Settlement Date (as defined herein) upon which the Issuer elects to satisfy all Deferred Interest Payments (as defined herein).

Payments in respect of the Capital Securities will be made without deduction for, or on account of, taxes of the United Kingdom, unless such deduction is required by law. In the event that any such deduction is made, the Capital Securities will be subject to grossing up by the Issuer, subject to certain exceptions as are more fully described under “Terms and Conditions of the Capital Securities — 10. Taxation”.

The Capital Securities will be perpetual. Subject to giving prior written notice to, and receiving no objection from, the Financial Services Authority (the “FSA”), the Capital Securities will be redeemable (at the option of the Issuer) in whole but not in part at their principal amount on 2 May 2017, or on any Interest Payment Date thereafter. In addition, upon the occurrence of a Tax Law Change or Capital Disqualification Event (each as defined in the Terms and Conditions of the Capital Securities), the Capital Securities may be (i) substituted for, or their terms varied so that they become, alternative Qualifying Tier 1 Securities (as defined in the Terms and Conditions of the Capital Securities) or Qualifying Upper Tier 2 Securities (as defined in the Terms and Conditions of the Capital Securities), or (ii) redeemed, at their principal amount (in the case of a Tax Law Change) or at their Make Whole Redemption Price (in the case of a Capital Disqualification Event), and as otherwise more particularly described in “Terms and Conditions of the Capital Securities — 7. Redemption, Substitution, Variation and Purchase”.

The Capital Securities will be unsecured securities of the Issuer and will be subordinated to the claims of Senior Creditors (as defined in the Terms and Conditions of the Capital Securities).

Prospective investors should have regard to the factors described under the section headed “Risk Factors” on pages 12 to 18 of this Prospectus. This Prospectus does not describe all of the risks of an investment in the Capital Securities.

Application has been made to the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “FSMA”) (the “UK Listing Authority”) for the Capital Securities 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 Capital Securities to be admitted to trading on the London Stock Exchange’s Gilt-Edged and Fixed Interest Market (the “Market”). References in this Prospectus to Capital Securities being “listed” (and all related references) shall mean that Capital Securities have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC.

The Capital Securities are expected to be assigned on issue a rating of “A3” by Moody’s Investors Service Ltd and “A” by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating organisation.

The Capital Securities will initially be represented by a temporary global capital security (the “Temporary Global Security”), without interest coupons or talons, which will be deposited with a common depository on behalf of Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) on or about 2 May 2007 (the “Closing Date”). The Temporary Global Security will be exchangeable for interests in a permanent global capital security (the “Permanent Global Security”), without interest coupons or talons, not earlier than 40 days after the Closing Date upon certification of non-U.S. beneficial ownership. The Permanent Global Security will be exchangeable for definitive securities only in certain limited circumstances, as described under “Summary of Provisions Relating to the Capital Securities while in Global Form”.

Joint Lead Manager
HSBC

Joint Lead Manager
Merrill Lynch International

**Structuring Adviser and
Joint Lead Manager**
The Royal Bank of Scotland

Co-Lead Manager
Société Générale Corporate & Investment Banking

This Prospectus comprises a prospectus for the purpose of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Issuer and the Issuer and its subsidiaries taken as a whole (the “Group”) which, according to the particular nature of the Issuer and the Capital Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer.

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

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Incorporation by Reference”).

In connection with the issue and sale of the Capital Securities, no person is authorised to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Managers (as defined in “Subscription and Sale” below) or the Trustee (as defined in “Terms and Conditions of the Capital Securities”).

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Managers or the Trustee that any recipient of this Prospectus should purchase any of the Capital Securities. Each investor contemplating purchasing Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Prospectus may only be used for the purposes for which it has been published.

No person is authorised to give any information or to make any representations other than those contained in this Prospectus in connection with the offering or sale of the Capital Securities and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Capital Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers to subscribe for or purchase, any of the Capital Securities.

The distribution of this Prospectus and the offering of the Capital Securities in certain jurisdictions may be restricted by law. Neither the Issuer nor any of the Managers represents that this Prospectus may be lawfully distributed, or that the Capital Securities 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 assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which would permit a public offering of the Capital Securities or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Capital Securities may not 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 comes are required by the Issuer and the Managers to inform themselves about, and to observe, any applicable restrictions. For a description of certain further restrictions on the offering, sale and delivery of the Capital Securities and on the distribution of this Prospectus, see “Subscription and Sale” below.

The Capital Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and the Capital Securities are subject to U.S. tax law requirements. Subject to certain exceptions, Capital Securities may not be offered, sold or delivered within the United States of America (the “United States”, “US” or “U.S.”) or to U.S. persons.

Unless otherwise specified or the context requires, references in this Prospectus to “£”, “sterling” or “Sterling” are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the “UK” or the “United Kingdom”); references to “euro” are to the currency introduced at the start of the third stage of European Economic and Monetary Union, pursuant to the Treaty establishing the European Community, as amended from time to time.

IN CONNECTION WITH THIS ISSUE, THE ROYAL BANK OF SCOTLAND PLC (OR PERSONS ACTING ON BEHALF OF THE ROYAL BANK OF SCOTLAND PLC) MAY OVER-ALLOT CAPITAL SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CAPITAL SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE ROYAL BANK OF SCOTLAND PLC (OR PERSONS ACTING ON BEHALF OF THE ROYAL BANK OF SCOTLAND PLC) 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 CAPITAL SECURITIES 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 CLOSING DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CAPITAL SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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INCORPORATION BY REFERENCE

This Prospectus should be read and construed in conjunction with:

- (a) the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2005, together with the audit report thereon (which appear at pages 48 to 132 (inclusive) of the Issuer's Annual Report and Accounts 2005);
- (b) the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2006, together with the audit report thereon (which appear at pages 54 to 134 (inclusive) of the Issuer's Annual Report and Accounts 2006),

which have been previously published or are published simultaneously with this Prospectus and which have been approved by the FSA or filed with it. The relevant sections of such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained therein which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein or in any supplemental prospectus prepared pursuant to Section 87 of the FSMA 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.

The parts of the above mentioned documents which are not incorporated by reference into this Prospectus are either not relevant for investors or are covered elsewhere in this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained without charge from the registered office of the Issuer at Temple Court, 11 Queen Victoria Street, London EC4N 4TP and from the website of the Issuer at www.legalandgeneralgroup.com. No other material appearing on the website of the Issuer is incorporated by reference in this Prospectus.

OVERVIEW

The following overview refers to certain provisions of the Terms and Conditions of the Capital Securities and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein have the meaning given to them in “Terms and Conditions of the Capital Securities”.

Issuer	Legal & General Group Plc
Trustee	The Law Debenture Trust Corporation p.l.c.
Issue Size	£600,000,000 of Capital Securities.
Issue Date	2 May 2007
Maturity	The Capital Securities will be perpetual.
Yield	6.385 per cent.
Redemption	The Capital Securities are perpetual securities and have no fixed redemption date. However, the Capital Securities are redeemable in whole, but not in part, at the option of the Issuer, subject to the Issuer giving written notice to, and receiving no objection from, the FSA and provided that the solvency condition set out in Condition 3(a) (Subordination – Conditions to Payment) is met, at their principal amount together with any Outstanding interest on 2 May 2017 (the “First Reset Date”) or on any Interest Payment Date thereafter.
Interest	The Capital Securities bear interest at a rate of 6.385 per cent. per annum from (and including) the Issue Date to (but excluding) the First Reset Date and thereafter at a rate per annum reset quarterly of 1.93 per cent. per annum above the London interbank offered rate for three-month sterling deposits.
Interest Payment Dates	Interest Payments in respect of the Capital Securities will be payable semi-annually in arrear in equal instalments on 2 May and 2 November in each year from (and including) 2 November 2007 to (and including) 2 May 2017 and thereafter, subject to adjustment for non-business days, on 2 February, 2 May, 2 August and 2 November, in each year.
Subordination	No payment of principal or interest in respect of the Capital Securities shall be due and payable unless the Issuer is able to make such payment and still be solvent immediately thereafter, in each case except in the winding-up or administration of the Issuer. The rights and claims of the Holders are subordinated to the claims of Senior Creditors in that upon any winding-up or if, following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend, the rights and claims of the Holders will be subordinated in accordance with Condition 3(b) (Subordination – Winding-up).
General Deferral of Payments	The Issuer may elect to defer any Interest Payment on the Capital Securities subject as provided in Condition 5

(Interest Deferral). No interest will accrue on any Deferred Interest Payment except as provided in Condition 6(e).

Any Deferred Interest Payment may be satisfied at any time at the Issuer's election, provided that the Issuer must satisfy such Deferred Interest Payment on the earlier of the following to occur:

- (i) the redemption of the Capital Securities at the option of the Issuer;
- (ii) the redemption, substitution or variation of the terms of the Capital Securities due to taxation or regulatory reasons; or
- (iii) substitution of the Capital Securities by Substituted Preference Shares.

In the event of a winding-up of the Issuer any Deferred Interest Payment will rank in accordance with Condition 3(b) (Subordination – Winding-up).

Restrictions During Period of Deferral....

If, on any Interest Payment Date, payment of the Interest Payment scheduled to be made on such date is not made in full by reason of the deferral provisions set out above or the operation of the solvency condition set out in Condition 3(a) (Subordination – Conditions to Payment), the Issuer shall:

- (i) not declare or pay any distribution or dividend (other than a dividend declared by the Issuer before the Issuer gives notice that such Interest Payment is to be deferred) or make any other payment on, and will procure that no distribution or dividend or other payment is made by any member of the Group on, any Junior Securities or any Parity Securities; or
- (ii) not redeem, purchase, cancel, reduce or otherwise acquire, and will procure that no redemption, purchase, cancellation, reduction or other acquisition is made by any member of the Group of, any Junior Securities or any Parity Securities,

unless or until (x) the Issuer next pays in full the Interest Payment due and payable on an Interest Payment Date in respect of the outstanding Capital Securities (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Holders in a manner satisfactory to the Trustee) or, if earlier, (y) any Optional Deferred Interest Settlement Date upon which the Issuer satisfies in full all Deferred Interest Payments. The restriction in part (i) of the foregoing sentence shall not apply to any partial payment of deferred interest on a Parity Security which is made simultaneously with a partial satisfaction of any Deferred Interest Payment *provided that* such partial payment on a Parity Security is not proportionately more than the partial satisfaction of any Deferred Interest Payment.

Alternative Interest Satisfaction

Mechanism

Investors will always receive payments made in respect of Capital Securities in cash. However (i) in respect of any Deferred Interest Payment the Issuer must, and (ii) in respect of any Interest Payment, the Issuer may, satisfy its obligation to make any payment (which term does not include any payment of principal) to Holders by issuing its Ordinary Shares, PIK Securities or Preferred Parity Securities to the Trustee or its agent. In such event, such Payment Eligible Securities shall be sold to purchasers for a cash amount which the Principal Paying Agent, on behalf of the Trustee, will pay to the Holders in respect of the relevant AISM Payment. A Calculation Agent will be appointed at such time and used to calculate in advance the number of Payment Eligible Securities to be issued in order to enable the Trustee or its agent to raise the full amount of money due on the relevant AISM Payment Date to Holders.

Any Deferred Interest Payment will only be made by operation of the AISM to the extent that the number of Payment Eligible Securities of each class does not exceed the Ordinary Shares Threshold in the case of Ordinary Shares, the PIK Securities Threshold in the case of PIK Securities and the Preferred Parity Securities Threshold in the case of Preferred Parity Securities.

Insufficiency

The Issuer is required to use all reasonable endeavours to obtain and maintain at all times all corporate authorisations and take any other corporate actions required for the issue and allotment of such number of Eligible Securities as it reasonably considers would be required to be issued as further set out in Condition 18 (Authorisations).

Market Disruption Event

If, in the opinion of the Issuer, a Market Disruption Event with respect to Payment Eligible Securities of any class exists on or after the 15th Business Day preceding any AISM Payment Date, the payment to Holders may be deferred until the Market Disruption Event, in the opinion of the Issuer, no longer exists.

Suspension

If, following any take-over offer or any reorganisation, restructuring or scheme of arrangement, the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner then such changes to the documentation relating to the Capital Securities as determined by an independent investment bank or financial institution appointed by the Issuer to be appropriate in order to preserve substantially the economic effect, for the Holders, of a holding of the Capital Securities and to replicate the AISM in the context of the capital structure of the new Ultimate Owner will be made by the Issuer and the Trustee, and pending such changes, the Issuer will be unable to satisfy payments using the AISM. If the investment bank is unable to determine appropriate amendments, as notified to the Issuer and the Trustee, each Capital Security will (subject to the consent of the FSA) at the option of the Issuer either be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or

	Qualifying Upper Tier 2 Securities or be redeemed at the price as set out in Condition 8(d) (Payments – Suspension).
Additional Amounts	The Issuer will pay additional amounts to Holders to gross up payments upon the imposition of UK withholding tax, subject to customary exceptions.
Optional Redemption	<p>The Issuer may, subject to giving prior written notice to, and receiving no objection from or, in certain circumstances, receiving the consent of, the FSA, redeem all, but not some only, of the Capital Securities at their principal amount together with any Outstanding interest:</p> <p>(i) in the event that it is obliged to pay Additional Amounts in respect of United Kingdom withholding taxation; or</p> <p>(ii) upon the occurrence of certain other changes in the treatment of the Capital Securities for taxation purposes,</p> <p>in each case provided that the Issuer cannot avoid the foregoing by taking measures reasonably available to it and subject to the solvency condition set out in Condition 3(a) (Subordination – Conditions to Payment).</p> <p>If at any time the Capital Securities cease to be eligible to qualify as Tier 1 Capital for the purposes of the FSA’s capital adequacy regulations, the Issuer may, subject to giving prior written notice to, and receiving no objection from or, in certain circumstances, receiving the consent of, the FSA, redeem all, but not some only, of the Capital Securities at their Make Whole Redemption Price together with any Outstanding interest and subject to the solvency condition set out in Condition 3(a) (Subordination – Conditions to Payment).</p>
Substitution or Variation instead of Redemption	If any event giving rise to the above rights to redeem the Capital Securities occurs, then, subject to the provisions of Condition 7(e) (Redemption, Substitution, Variation and Purchase – Substitution or Variation Instead of Redemption), the Issuer may instead of giving notice to redeem, substitute at any time all of the Capital Securities for, or vary the terms of the Capital Securities so that they remain or become (as the case may be), Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities.
Substitution for Substituted Preference Shares	Upon the occurrence and continuation of a Capital Breach Event, the Issuer may, subject as provided in Conditions 7(f) (Redemption, Substitution, Variation and Purchase – Preconditions to Redemption, Substitution and Variation) and 7(j) (Redemption, Substitution, Variation and Purchase – Substitution for Substituted Preference Shares), substitute the Capital Securities by Substituted Preference Shares, all as more particularly described in Condition 7(j).
Remedy for Non-Payment	The sole remedy against the Issuer available to the Trustee or any Holder or Couponholder for recovery of amounts owing

in respect of any payment of principal or interest in respect of the Capital Securities or Coupons will be the institution of proceedings for the winding-up of the Issuer and/or proving in the winding-up of the Issuer and/or claiming in the liquidation of the Issuer.

Form	Bearer. The Capital Securities will be represented initially by the Temporary Global Security, without Coupons or Talons, which will be deposited outside the United States with a common depository for Clearstream, Luxembourg and Euroclear on or about the Issue Date. The Temporary Global Security will be exchangeable for interests in the Permanent Global Security, without Coupons or Talons, on or after a date which is expected to be 11 June 2007 upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations and as described in the Temporary Global Security. Save in the limited circumstances described in the Permanent Global Security, Capital Securities in definitive bearer form with Coupons and a Talon attached on issue will not be issued in exchange for interests in the Permanent Global Security.
Denomination	The Capital Securities are issued in the denomination of £50,000.
Listing and Admission to Trading	London. Applications have been made for the Capital Securities to be admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Gilt-Edged and Fixed Interest Market.
Governing Law	English.
Rating	The Capital Securities are expected to be assigned on issue an A rating by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and an A3 rating by Moody's Investors Service Ltd. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating organisation.
Risk Factors	Prospective investors should carefully consider the information under "Risk Factors" in conjunction with the other information contained or incorporated by reference in this document.
Replacement Capital Covenant	The Issuer intends to enter into a replacement capital covenant for the benefit of one or more designated series of the Issuer's debt securities. It is anticipated that the terms of such replacement capital covenant will provide that the Issuer will not redeem or repurchase any Capital Securities, and will not permit any subsidiary to purchase any Capital Securities, unless and to the extent the aggregate redemption, repurchase or purchase price is equal to or less than the net proceeds (or in certain circumstances a specified percentage of such net proceeds) received by the Issuer or its subsidiaries, during the six months prior to such redemption, repurchase or purchase date, from new issuances of qualifying securities and that the covenant will terminate on

the redemption of the Capital Securities if not terminated earlier in accordance with its terms. The replacement capital covenant will continue to be effective following any substitution or variation of the Capital Securities in accordance with their terms.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Capital Securities. 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 Capital Securities are also described below.

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

Factors that may affect the Issuer's ability to fulfil its obligations under the Capital Securities

This section details certain risk factors which could affect the Group's future results of operations and cause them to be materially different from past results or from expected results. The factors detailed in this section should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Market Risk and Economic Conditions

The Group's business is subject to general market risks and changes in economic conditions.

Market risk is the risk that the Group is exposed to loss as a direct or indirect result of fluctuations in the value of, or income from, specific assets. The Group has substantial holdings of fixed interest securities, equity securities and property. While the market risk is often borne by or shared with (in whole or in part) policyholders, fluctuations in the fixed income, equity and property markets will directly or indirectly affect the reported financial results and capital requirements of the business. A significant reduction in the market values of the Group's investments may adversely affect the Group's regulatory solvency position.

The Group's principal areas of activity are carried out primarily within the United Kingdom. Deterioration in economic conditions within the United Kingdom leading to changes in inflation rates or rates of default could therefore have an adverse effect on these businesses either in terms of the amount of business written or in the value of assets and liabilities.

Insurance Risk

Insurance risk is the risk that the Group is exposed to loss arising from higher levels of claims being experienced than those anticipated. The amount of such future claims is assessed on actuarial principles by reference to assumed levels and movements in interest rates, mortality or (if applicable) morbidity rates, persistency rates (the extent to which policies remain in force and are not surrendered or transferred prior to maturity) and future levels of expenses. The Group has made a number of assumptions regarding mortality rates. However, there is uncertainty as to the rate of future improvements in mortality. If the assumptions underlying the reserving basis were to prove incorrect, the Group may have to increase the amount of its reserves.

The acceptance of financial risks associated with the writing of new products, or the incorrect assessment of liabilities once business has been accepted, represents a financial risk to the strength of the Long Term Fund (the Long Term Fund consists of those assets and liabilities which are attributed to the long term business). Within the area of insurance risk, there are three particular risks to the Group:

- (a) the acceptance of certain long-term product design features, such as embedded guarantees, which at the time of launch may be appropriate based on assumptions but could in the future generate substantial liabilities in the Long Term Fund;

- (b) the concentration of certain types of liability within the Long Term Fund, creating future risks to financial strength should there be significant differences in actual experience (for example, in the mortality rate of annuitants) to underlying design and pricing assumptions; and
- (c) the potential incorrect valuation of existing and contingent liabilities due to the inherent complexity of the valuation process and underlying interaction of assumptions.

Credit Risk

Credit risk is the risk that the Group is exposed to loss if another party fails to perform its financial obligations to the Group, particularly where proceeds from its investments or its reinsurance arrangements are not available as expected.

Significant areas where the Group is exposed to credit risk include the following:

- (a) the Group holds corporate bonds to back part of its insurance liabilities. There is a risk that the issuers of such bonds may default upon their payment obligations, resulting in financial loss to the Group (although this risk is allowed for in the actuarial valuation of the insurance liabilities, which allow for the probability of default, and is restricted by regulatory limits on the levels of high risk assets which may be held for the purpose of demonstrating solvency);
- (b) the Group is exposed to counterparty default risk in connection with the derivatives held to hedge guarantees provided in some contracts. The Group controls the levels of such risk by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Counterparty exposure limits are regularly reviewed and monitored; and
- (c) the Group limits its exposure to insurance risk by ceding part of the risks it assumes to the reinsurance market. There is a risk that one or more reinsurers may default upon their reinsurance obligations. To limit the risk of such default, the Group operates a strict credit rating policy when arranging cover.

Liquidity Risk

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. Liquidity requirements vary according to the type of business written, and monthly cashflow projections are maintained to indicate likely cash requirements. In addition, committed bank facilities are maintained to accommodate unforeseen cash requirements.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group attempts to minimise operational risk, and seeks to ensure controls are in place to limit operational risks to a commercially viable level.

Market Competition and the Financial Services Sector

The UK insurance industry has experienced significant change in the last decade and, as competition has become tougher, weaker and smaller companies have been shaken out of the market. Thus companies have merged, have stopped writing business and gone into run-off or have simply withdrawn from major lines of business.

In line with other participants in the UK insurance industry, the Group faces strong competition in all of its main areas of business, and its continuing profitability, and the long term viability of its product range, depends upon an adequate response to such competition.

Legal, Supervisory and Regulatory Environment

The Group's business is subject to applicable law and regulations, both within the UK and internationally.

In the UK, the Group's business is subject to regulation by the FSA, which has broad powers under the Financial Services and Markets Act 2000, 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 capital resources. It has the power to take a range of disciplinary and enforcement actions, including public censure, restitution, fines or compensation and other sanctions.

Any regulatory action (whether in the UK or elsewhere) could have a negative impact upon the Group's results or on its 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 an adverse effect on the business of the Group, its results of operations or its financial condition.

The Group's activities and strategies are based upon prevailing legislation and regulation. Changes in legislation, and differing interpretation and application of regulation, may have a detrimental effect on the Group's strategy and profitability.

Capital Adequacy Requirements

Firms which are permitted to carry on insurance business in the UK are required to maintain a minimum level of assets (referred to as regulatory capital) in excess of their liabilities. The relevant companies within the Group satisfy all of their current regulatory requirements in this regard. Fluctuations in the fixed income and equity markets would, however, directly or indirectly, affect levels of regulatory capital held by the Group companies. An inability to meet regulatory capital requirements in the future would be likely to lead to intervention by the FSA, which could be expected to require the Group to take steps to restore the level of regulatory capital held to acceptable levels.

Insurance regulation in the UK is largely based upon the requirements of EU directives. Inconsistent application of such directives by regulators in different EU Member States may place the Group at a competitive disadvantage to other European insurance and financial services groups. In addition, changes in the local regulatory regimes of countries in which the Group operates could affect the calculation of the Group's solvency position.

The EU Insurance Groups Directive (Directive 98/78/EC), which was implemented in the UK in 2001, requires European insurance firms to demonstrate net aggregate surplus capital in excess of solvency requirements at the group level in respect of shareholder-owned entities. The EU is also currently reviewing future solvency requirements (the "Solvency II Review"). Although it is not possible to be certain at this stage what the effect of the ongoing Solvency II Review will have on the solvency requirements for insurance groups, it is possible that its implementation will increase the amount of capital which the Group is required to hold, which may adversely affect the Group's ability to make payments in respect of the Capital Securities.

UK Taxation Law

Changes in the interpretation of existing tax laws, amendments to existing tax rates, or the introduction of new tax legislation may adversely affect the business, results of operations and financial condition of the Group. The impact on the Group would depend upon the business undertaken, and other relevant circumstances, at the time of such change.

Position of the Issuer within the Group

The Group's operations are generally conducted through direct and indirect subsidiaries. As a holding company, the Issuer's principal sources of funds are dividends from its operational subsidiaries and amounts that may be raised through the issue of debt instruments.

Credit Ratings

The Group's business is dependent on its ability to access the capital markets and its cost of borrowing in these markets is influenced by the credit ratings supplied by ratings agencies. The Capital Securities are expected to be assigned a rating of A3 (Moody's) and A (Standard & Poor's). A credit rating is not a

recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating organisation. Any downgrading of these ratings could affect the Group's borrowing cost and consequently may weaken its market position.

Factors which are material for the purpose of assessing the suitability of the Capital Securities as an investment

The Capital Securities may not be a suitable investment for all investors

Each potential investor in the Capital Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Capital Securities, the merits and risks of investing in the Capital Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Capital Securities and the impact the Capital Securities will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Capital Securities, including where sterling is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Capital Securities and be familiar with the behaviour of the relevant financial markets; and
- (v) 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 Capital Securities are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Capital Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Capital Securities will perform under changing conditions, the resulting effects on the value of the Capital Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of the Capital Securities

The Capital Securities are subordinated obligations

The rights and claims of the Holders will be subordinated to the claims of Senior Creditors, in that upon any winding-up or administration of the Issuer, the claims of Holders and the Couponholders will, for the purpose of calculating the amounts payable in respect of each Capital Security, rank *pari passu* without any preference among themselves and in respect of certain payments, *pari passu* with any Notional Preference Shares, and in respect of certain other payments, *pari passu* with issued Ordinary Shares.

Deferral of Interest Payments

The Issuer may elect to defer any Interest Payment on the Capital Securities as provided in Condition 5 and all payments are subject to the Issuer being solvent at the time of payment as provided in Condition 3(a). If the Issuer does defer or does not make an Interest Payment such Deferred Interest Payment will become due only on the earlier of (i) redemption, substitution or variation of the Capital Securities in accordance with Condition 7; and (ii) the date on which an order is made or a resolution is passed for the winding-up of the Issuer. Other than in the event of a Suspension or winding-up of the Issuer, Deferred Interest Payments may only be satisfied by means of the Alternative Interest Satisfaction Mechanism.

Perpetual securities

The Issuer is under no obligation to redeem the Capital Securities at any time and the Holders have no right to call for their redemption. The Issuer intends to enter into a replacement capital covenant for the benefit of one or more designated series of the Issuer's debt securities. See paragraph (7) under "General Information" for a summary of the terms of such replacement capital covenant.

Redemption risk

The Capital Securities may, subject as provided in Condition 7, be redeemed at their principal amount together with any Outstanding interest thereon at the option of the Issuer on 2 May 2017 or on any Interest Payment Date thereafter. In addition, upon the occurrence of a Tax Law Change or Capital Disqualification Event, the Capital Securities may be (i) substituted for, or their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or (ii) redeemed at their outstanding principal amount (in the case of a Tax Law Change) or their Make Whole Redemption Price (in the case of a Capital Disqualification Event), together in each case with any Outstanding interest, all as more particularly described in "Terms and Conditions of the Capital Securities — 7. Redemption, Substitution, Variation and Purchase".

Substitution risk

Upon the occurrence and continuation of a Capital Breach Event, the Issuer may, subject as provided in Condition 7, substitute the Capital Securities with Substituted Preference Shares, all as more particularly described in "Terms and Conditions of the Capital Securities — 7. Redemption, Substitution, Variation and Purchase — (j) Substitution for Substituted Preference Shares". The tax and stamp duty consequences of holding preference shares following a substitution could be different for some categories of holder from the tax and stamp duty consequences for them of holding Capital Securities.

No limitation on issuing senior or pari passu securities

There is no restriction on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Capital Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of Interest Payments under the Capital Securities.

Use of the AISM to satisfy Deferred Interest Payments is subject to caps

The Issuer may satisfy AISM Payments only by means of issuing Ordinary Shares, PIK Securities and/or Preferred Parity Securities in accordance with Condition 6. The ability of the Issuer to satisfy Deferred Interest Payments by means of issuing Ordinary Shares, PIK Securities or Preferred Parity Securities is subject to caps on the issue of such securities as referred to in Condition 6(a). Consequently, if at any time when any Deferred Interest Payments fall to be satisfied, the Issuer has reached the caps, the Issuer will not be able to satisfy such Deferred Interest Payment to such extent for the life of the Capital Securities (in the case of Preferred Parity Securities or PIK Securities) or for a 12 month period (in the case of Ordinary Shares). Further, the Capital Securities may not be redeemed, substituted or varied unless and until all Deferred Interest Payments (if any) are satisfied in full through the operation of the AISM, on or prior to the date set for the relevant redemption, substitution or variation.

Availability of shares and securities

The Issuer will undertake to use all reasonable endeavours to obtain and maintain certain corporate authorisations required for the operation of the AISM, as more particularly described in "Terms and Conditions of the Capital Securities — 18. Authorisations". However, if, at the time when any Deferred Interest Payments fall to be satisfied by means of the AISM, the Issuer does not have available and/or the Directors do not have the necessary authority under English law to allot in favour of the Trustee or its agent

(free from any pre-emption rights) a sufficient number of Eligible Securities to satisfy the relevant AISM Payments, then the Issuer will not be able to operate the AISM.

The Issuer may not exercise its right to redeem, substitute or vary the Capital Securities, unless the Issuer has available, and the Directors have the corresponding authority to allot, such number of Eligible Securities as may be required to be issued for the purposes of satisfying in full any AISM Payments which are required to be satisfied in connection with such redemption, substitution or variation (all as more particularly described in “Terms and Conditions of the Capital Securities — 6. Alternative Interest Satisfaction Mechanism — (d) Insufficiency”). In addition, the Capital Securities may not be redeemed, substituted or varied unless all Deferred Interest Payments (if any) are satisfied through the operation of the AISM on or prior to the date set for the relevant redemption, substitution or variation.

Restricted remedy for non-payment when due

In accordance with the FSA’s requirements for Tier 1 Capital, 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 Terms and Conditions of the Capital Securities) any Holder for recovery of amounts which have become due in respect of the Capital Securities and interest will be the institution of proceedings for the winding-up of the Issuer and/or proving in such winding-up and/or claiming in the liquidation of the Issuer. In accordance with Condition 3(a) and except in the winding-up or administration of the Issuer, no payment in respect of the Capital Securities shall become due unless the conditions to payment set out in Condition 3(a) are satisfied.

Modification, waivers and substitution

The Terms and Conditions of the Capital Securities contain provisions for calling meetings of holders of Capital Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of Capital Securities, including holders of Capital Securities who did not attend and vote at the relevant meeting and holders of Capital Securities who voted in a manner contrary to the majority.

Risks related to the market generally

Legal considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should determine whether the Capital Securities are a lawful investment for it, and the regulatory implications for it of making such an investment.

European Monetary Union

If the United Kingdom joins the European Monetary Union while any Capital Securities remain outstanding, there is no assurance that this would not adversely affect investors in the Capital Securities. It is possible that the United Kingdom may become a participating Member State and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Capital Securities may become payable in euro; (ii) the law may allow or require such Capital Securities to be re-denominated into euro and additional measures to be taken in respect of the Capital Securities; and (iii) there may no longer be available published or displayed rates for deposits in pounds sterling used to determine the rates of interest on such Capital Securities or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Capital Securities.

EU Savings Tax Directive

Under measures implemented in order to comply with EC Council Directive 2003/48/EC 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 an individual resident in that other Member State. However, for a transitional period, Austria, Belgium and Luxembourg

are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State (or a non-EU country or territory which has adopted similar measures) which has opted for a withholding system 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 Capital Security as a result of the imposition of such withholding tax. If a withholding tax is imposed on payments made by a Paying Agent, the Issuer will be required, save as provided in the Terms and Conditions of the Capital Securities, to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to such measures.

The Directive does not preclude Member States from levying other types of withholding tax.

Change of law

The Terms and Conditions of the Capital Securities are based on English law in effect as at the date of issue of the Capital Securities. 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 Capital Securities.

Exchange rate risk and exchange controls

The Issuer will pay principal and interest on the Capital Securities in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currencies (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 may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to sterling would decrease (1) the Investor's Currency equivalent yield on the Capital Securities, (2) the Investor's Currency equivalent value of the principal payable on the Capital Securities and (3) the Investor's Currency equivalent market value of the Capital Securities.

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.

Absence of prior public markets

The Capital Securities constitute a new issue of securities by the Issuer. Prior to such issue, there will have been no public market for the Capital Securities. Although applications have been made for the Capital Securities to be listed, there can be no assurance that an active public market for the Capital Securities will develop and, if such a market were to develop, neither the Managers nor any other person is under any obligation to maintain such a market. The liquidity and the market prices for the Capital Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Group and other factors that generally influence the market prices of securities.

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The following, subject to alteration and except for paragraphs in italics, are the terms and conditions of the Capital Securities which will be endorsed on each Capital Security in definitive form (if issued).

The issue of the £600,000,000 Perpetual Preferred Callable Capital Securities (the “**Capital Securities**”, which expression shall, unless the context otherwise requires, include any further instruments issued pursuant to Condition 16 and forming a single series with the Capital Securities) of Legal & General Group Plc (the “**Issuer**”) was authorised by a resolution of the Board of Directors of the Issuer passed on 13 March 2007 and a resolution of a duly authorised executive committee of the Board of Directors of the Issuer passed on 24 April 2007. The Capital Securities are constituted by a trust deed (the “**Trust Deed**”) dated 2 May 2007 between the Issuer and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Capital Securities (the “**Holders**”). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Capital Securities and of the interest coupons (the “**Coupons**”, which expression includes, where the context so permits, talons for further Coupons (the “**Talons**”)) and the Talons appertaining to Capital Securities in definitive form. Copies of (i) the Trust Deed; (ii) the paying agency agreement (the “**Paying Agency Agreement**”) dated 2 May 2007 relating to the Capital Securities between the Issuer, Citibank, N.A. as the initial principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor thereto) and the other initial paying agent named therein (together with the Principal Paying Agent and any other paying agents appointed under the Paying Agency Agreement, the “**Paying Agents**”), Citibank, N.A. as agent bank (the “**Agent Bank**”, which expression shall include any successor thereto) and the Trustee; and (iii) the Calculation Agency Agreement (if any) are available for inspection during usual business hours at the principal office of the Trustee (being at the Issue Date at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of each of the Paying Agents. The Holders and the holders of the Coupons (whether or not attached to the relevant Capital Securities) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement and the Calculation Agency Agreement (if any).

1 Form, Denomination and Title

(a) Form and Denomination

The Capital Securities are serially numbered and in bearer form in the denomination of £50,000, each with Coupons and one Talon attached on issue.

(b) Title

Title to the Capital Securities and Coupons passes by delivery. The holder of any Capital Security or Coupon 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 in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status

The Capital Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Holders and the Couponholders are subordinated as described in Condition 3.

3 Subordination

(a) Conditions to Payment

Payments in respect of or arising from (including any damages awarded for breach of any obligations under) the Capital Securities and the Coupons (including Coupons payable in cash or by way of the

issue of Eligible Securities in accordance with Condition 6) are, in addition to the right of the Issuer to defer payment of interest in accordance with Condition 5, conditional upon the Issuer being solvent at the time of payment by the Issuer (or at the time of issue of such Eligible Securities) and no principal, premium, interest or any other amount shall be due and payable in respect of or arising from the Capital Securities, the relative Coupons (including Coupons payable in cash or by way of the issue of Eligible Securities in accordance with Condition 6) and the Trust Deed except to the extent that the Issuer could make such payment and still be solvent immediately thereafter, in each case except in the winding-up or administration of the Issuer.

In these Conditions, the Issuer shall be considered to be solvent if (x) it is able to pay its debts owed to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities. A certificate as to the solvency of the Issuer by two Authorised Signatories (or if there is a winding up or administration of the Issuer, the liquidator or, as the case may be, administrator of the Issuer) shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Holders, the Couponholders and all other interested parties as correct and sufficient evidence thereof.

The Issuer shall (except where Condition 3(b) applies) satisfy any Deferred Interest Payment which arises as a result of this Condition 3(a) in the manner, and at the time, referred to in Condition 5.

(b) *Winding-up*

The rights and claims of the Holders and the Couponholders are subordinated to the claims of Senior Creditors in that if 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 purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Capital Securities shall thereby become redeemable or repayable in accordance with these Conditions) or if, following the appointment of an administrator of the Issuer, the administrator gives notice that it intends to declare and distribute a dividend, there shall be payable by the Issuer in respect of each Capital Security (in lieu of any other payment by the Issuer), such amount, if any, as would have been paid to the Holder of such Capital Security if, throughout such winding-up or administration, such Holder were the holder of shares in the capital of the Issuer as follows:

- (i) for each £1 otherwise payable in respect of any Interest Payment, Deferred Interest Payment (which includes any Deferred Interest Payment which has not been settled in accordance with the AISM as a result of the Ordinary Shares Threshold, PIK Securities Threshold or Preferred Parity Securities Threshold, insufficiency or otherwise) or other amount payable in respect of, or arising from, each Capital Security (including any damages awarded for breach of any obligations) in respect of which the conditions specified in Condition 3(a) are not satisfied on the date on which the same would otherwise be due and payable or which otherwise have not been satisfied, apart from principal: one preference share of £1 each in the capital of the Issuer ranking equally with the Notional Preference Shares;
- (ii) subject to (iii) below, for each £1 otherwise payable in respect of the principal amount of each Capital Security: such number of ordinary shares of the Issuer then in issue whose nominal value aggregates to £1 ranking equally with the issued Ordinary Shares; and
- (iii) if and to the extent that the principal amount of each Capital Security exceeds the amount of Deferred Interest Payments attributable to such Capital Security (the “**excess amount**”), for each £1 of excess amount otherwise payable in respect of, or arising from, such Capital Security: one preference share of £1 each in the capital of the Issuer ranking equally with the Notional Preference Shares.

(c) ***Set-off***

Subject to applicable law, no Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising from, the Capital Security or the Coupons and each Holder and Couponholder shall, by virtue of his holding of any Capital Security or Coupon, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder or Couponholder by the Issuer in respect of, or arising from, the Capital Securities or the Coupons is discharged by set-off, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its winding-up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

4 Interest Payments

(a) ***Interest Rate***

The Capital Securities bear interest at the applicable Interest Rate from the Issue Date in accordance with the provisions of this Condition 4.

Subject to Conditions 3(a), 5, 6(a), 6(d), 6(e) and 8(d), during the Fixed Rate Interest Period interest shall be payable on the Capital Securities semi-annually in arrear in equal instalments on each Interest Payment Date, and thereafter interest shall be payable on the Capital Securities quarterly in arrear on each Interest Payment Date, in each case as provided in this Condition 4.

Where it is necessary to compute an amount of interest in respect of any Capital Security during the Fixed Rate Interest Period for a period which is less than a complete semi-annual Interest Period, the relevant day-count fraction shall be determined on the basis of the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by two times the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

Interest shall accrue on the Capital Securities in respect of all Interest Periods (and any other period in respect of which interest may fall to be calculated) commencing on or after the First Reset Date on the basis of a day-count fraction equal to the actual number of days elapsed in the relevant period divided by 365 (or, in the case of an Interest Payment Date falling in a leap year, 366).

(b) ***Interest Accrual***

The Capital Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Conditions 7(b), (c) or (d), or the date of substitution thereof pursuant to Condition 7(e) or 7(j), as the case may be, unless, upon due presentation, payment and performance of all amounts and obligations due in respect of the Capital Securities is not properly and duly made, in which event interest shall continue to accrue, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date. Any such interest in respect of a Capital Security shall be equal to the product of the principal amount of such Capital Security, the relevant Interest Rate and the day count fraction as described in Condition 4(a) for the relevant period, rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

(c) ***Fixed Interest Rate***

For the Fixed Rate Interest Period, the Capital Securities bear interest at the rate of 6.385 per cent. per annum (the “**Fixed Interest Rate**”).

(d) *Floating Interest Rate*

From (and including) the First Reset Date, the Capital Securities will bear interest at a floating rate of interest (the “**Floating Interest Rate**”). The Floating Interest Rate in respect of each Interest Period commencing on or after the First Reset Date will be determined by the Agent Bank on the basis of the following provisions:

- (i) On each Interest Determination Date, the Agent Bank will determine the offered rate (expressed as a rate per annum) for three-month deposits in pounds sterling as at 10.00 hours (London time) on such Interest Determination Date, as displayed on the display designated as page “LIBOR01” on the Reuters Monitor Money Rates Service (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Interest Rate for the relevant Interest Period shall be such offered rate as determined by the Agent Bank plus the Margin.
- (ii) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal London office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the London inter bank market for three-month deposits in pounds sterling as at 10.00 hours (London time) on the Interest Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Interest Rate for the relevant Interest Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.
- (iii) If on any Interest Determination Date to which the provisions of paragraph (ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Interest Rate for the relevant Interest Period shall be the rate which the Agent Bank determines to be the aggregate of the Margin and the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the pounds sterling lending rates which leading banks in London selected by the Agent Bank are quoting, on the relevant Interest Determination Date, to leading banks in London for a period of three months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Interest Rate for such Interest Period shall be either (1) the Floating Interest Rate in effect for the last preceding Interest Period to which one of the preceding sub-paragraphs of this Condition 4(d) shall have applied or (2) if none, 6.385 per cent. per annum.

(e) *Determination of Floating Interest Rate and Calculation of Floating Interest Amounts*

The Agent Bank will, as soon as practicable after 10.00 hours (London time) on each Interest Determination Date, determine the Floating Interest Rate in respect of the relevant Interest Period and calculate the amount of interest payable per Capital Security on the Interest Payment Date for that Interest Period (the “**Floating Interest Amounts**”).

(f) *Publication of Floating Interest Rate and Floating Interest Amounts*

The Issuer shall cause notice of the Floating Interest Rate determined in accordance with this Condition 4 in respect of each relevant Interest Period, the Floating Interest Amount and the relevant date scheduled for payment to be given to the Trustee, the Paying Agents, any stock exchange on which the Capital Securities are for the time being listed or admitted to trading and, in accordance with Condition 15, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The Floating Interest Amount, the Floating Interest Rate and the date scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made with the

consent of the Trustee by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions.

(g) *Determination or Calculation by Trustee*

If the Agent Bank does not at any time for any reason so determine the Floating Interest Rate or calculate the amount of interest payable per Capital Security, the Trustee shall do so and such determination or calculation shall be deemed to have been made by the Agent Bank. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(h) *Agent Bank*

With effect from the First Reset Date, and so long as any Capital Securities remain outstanding thereafter, the Issuer will maintain an Agent Bank. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank with another leading investment, merchant or commercial bank or financial institution in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or (without prejudice to Condition 4(g) above) fails duly to determine the Floating Interest Rate in respect of any Interest Period as provided in Condition 4(d) or calculate the amount of interest per Capital Security, the Issuer shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(i) *Determinations of Agent Bank or Trustee Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4, whether by the Agent Bank or the Trustee (or its agent), shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders or the Issuer shall attach to the Agent Bank or the Trustee in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

5 Interest Deferral

The Issuer may defer any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date, save as provided below. The Issuer shall give notice of such deferral to the Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent, if any, before the relevant Interest Payment Date. The Issuer may not exercise its right under this Condition 5 to defer Interest Payments if a Capital Disqualification Event has occurred unless a Capital Breach Event has also occurred and is continuing at such time when it may still exercise such right in its discretion.

The Issuer shall (except where Condition 3(b) applies) satisfy any Interest Payments deferred in accordance with the immediately preceding paragraph, and any Deferred Interest Payments which arise as a result of the failure to satisfy the conditions to payment set out in Condition 3(a) only by operation of the procedures set out in Condition 6. Such Deferred Interest Payments may be satisfied by the Issuer in the manner aforesaid at any time upon the expiry of not less than 14 days' notice (the "**Optional Deferred Interest Settlement Date**") to such effect given by the Issuer to the Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent and in any event the Issuer must (subject to Condition 8(d)) satisfy any Deferred Interest Payments on the first of the following to occur: (i) redemption of the Capital Securities in accordance with Conditions 7(b), (c) or (d); or (ii) substitution or variation of the terms of the Capital Securities in accordance with Condition 7(e) (the date on which any such redemption,

substitution or variation referred to in (i) or (ii) above occurs being the “**Termination Date**”); or (iii) substitution of the Capital Securities by Substituted Preference Shares pursuant to Condition 7(j).

If, on any Interest Payment Date, payment of the Interest Payment scheduled to be made on such date is not made in full by reason of either Condition 3(a) or this Condition 5, the Issuer shall (a) not declare or pay any distribution or dividend (other than a dividend declared by the Issuer before the Issuer gives notice that such Interest Payment is to be deferred) or make any other payment on, and will procure that no distribution or dividend or other payment is made by any member of the Group on, any Junior Securities or Parity Securities (which, for the avoidance of doubt, does not preclude the payment or making of a dividend or distribution by any Subsidiary on any of its share capital or other securities which do not benefit from a guarantee or support agreement of the type referred to in the definition of Junior Securities or Parity Securities); or (b) not redeem, purchase, cancel, reduce or otherwise acquire, and will procure that no redemption, purchase, cancellation, reduction or other acquisition is made by any member of the Group of, any Junior Securities or any Parity Securities, unless or until (x) the Issuer next pays in full the Interest Payment due and payable on an Interest Payment Date in respect of the outstanding Capital Securities (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Holders in a manner satisfactory to the Trustee) or, if earlier, (y) any Optional Deferred Interest Settlement Date upon which the Issuer satisfies in full all Deferred Interest Payments. The restriction in part (a) of the foregoing sentence shall not apply to any partial payment of deferred interest on a Parity Security which is made simultaneously with a partial satisfaction of any Deferred Interest Payment *provided that* such partial payment on a Parity Security is not proportionately more than the partial satisfaction of any Deferred Interest Payment.

Notwithstanding any other provision in these Conditions or the Trust Deed, the deferral of any Interest Payment by virtue of this Condition 5 or Condition 3(a) shall not constitute a default for any purpose (including, without limitation, Condition 9(a)) on the part of the Issuer. Any Interest Payment so deferred shall not, except in the circumstances provided in Condition 6(e), bear interest.

6 Alternative Interest Satisfaction Mechanism

(a) Alternative Interest Satisfaction Mechanism

Each AISM Payment, when due to be satisfied in accordance with these Conditions, will (except as provided in Condition 8(d)) be satisfied by the Issuer in full only through the issue and/or sale of Eligible Securities of one or more classes to the Trustee or its agent in accordance with this Condition 6. The Issuer shall appoint a Calculation Agent (if it has not already done so) and notify the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 Business Days prior to the relevant AISM Payment Date that an AISM Payment is to be satisfied on such AISM Payment Date. All other payments due must, subject to Conditions 3(a) and 5, be satisfied in accordance with Condition 8(a).

Any relevant Deferred Interest Payment will only be made by operation of the AISM to the extent that the number of such Payment Eligible Securities of each class does not exceed, in the case of Ordinary Shares, the Ordinary Shares Threshold, in the case of PIK Securities, the PIK Securities Threshold and, in the case of Preferred Parity Securities, the Preferred Parity Securities Threshold and in each case only to the extent that the proceeds raised from the issuance or sale of Payment Eligible Securities is received no more than six months before the relevant AISM Payment Date.

(b) Issue of Eligible Securities

If any AISM Payment is to be satisfied through the issue of Eligible Securities as required by the provisions of this Condition 6 then:

- (i) by or before the close of business on the seventh Business Day prior to the relevant AISM Payment Date, the Issuer will issue and/or sell to the Trustee (or, if so agreed between the Issuer and the Trustee, to an agent of the Trustee) such number of Eligible Securities of one or more classes (the “**Payment Eligible Securities**”) as, in the determination of the Calculation Agent,

will have a market value as near as practicable to, but not less than, the relevant AISM Payment to be satisfied in accordance with this Condition 6; and

- (ii) the Trustee has agreed to use reasonable endeavours to effect the transfer or instruct its agent to effect the transfer of such Payment Eligible Securities to or to the order of the Calculation Agent as soon as practicable and in any case by not later than the close of business in London on the sixth Business Day prior to the relevant AISM Payment Date and the Calculation Agent shall be required to agree in the Calculation Agency Agreement to use reasonable endeavours to procure purchasers for such Payment Eligible Securities. The Calculation Agent shall further be required to agree in the Calculation Agency Agreement to deliver the proceeds of such sale to, or hold the proceeds of such sale to the order of, the Trustee, who shall pay or procure that its agent pays such proceeds as it holds in respect of the relevant AISM Payment on its due date to the Principal Paying Agent for application in accordance with Condition 6(c).

The Trustee shall not be liable to anyone for any loss occasioned by the transfer or sale of the Payment Eligible Securities, in each case by or on behalf of the Trustee, or any delay or failure in effecting such transfer or sale of the Payment Eligible Securities under these Conditions.

If the proceeds of the sale of the Payment Eligible Securities will not, in the opinion of the Calculation Agent despite the arrangements described above, result in a sum at least equal to the relevant AISM Payment being available to satisfy the necessary AISM Payment in full on its due date, the Issuer, the Trustee and the Calculation Agent shall take such steps as are reasonably necessary to ensure, so far as practicable, that through issuing additional Eligible Securities on one or more further occasions (also “**Payment Eligible Securities**”) and allotting them in favour of the Trustee or its agent and following, *mutatis mutandis*, the procedures contained above, a sum as near as practicable to, and at least equal to, the relevant AISM Payment will be available to satisfy the relevant AISM Payment in full on its due date. If, despite the operation of the above provisions, a shortfall exists on the Business Day preceding the intended AISM Payment Date, the Issuer shall, for a period of five years from such date, use all reasonable endeavours to settle any AISM Payment in accordance with this Condition 6 and may in accordance with the provisions of any Calculation Agency Agreement, and subject to having the relevant corporate authorisations in place, continue to issue and allot the relevant number of Payment Eligible Securities until the Trustee shall have received funds on behalf of the Issuer equal to the full amount of such shortfall. The foregoing is subject to the proviso that if a shortfall exists on the Business Day preceding the intended Termination Date, no part of the AISM Payment shall be due until such time as the Issuer is able to pay a sum at least equal to the AISM Payment in full in accordance with the procedures set out in this Condition 6 on the Termination Date.

(c) Issue Satisfies Payment

Where the Issuer is required to satisfy an AISM Payment hereunder by issuing and/or selling Payment Eligible Securities to the Trustee (or its agent) and issues and/or sells such Payment Eligible Securities, such issue and/or sale shall satisfy the relevant AISM Payment or, as the case may be, the relevant part of such AISM Payment, if done in accordance with this Condition 6. The proceeds of sale of Payment Eligible Securities shall be paid by the Principal Paying Agent to the Holders in respect of the relevant AISM Payment.

(d) Insufficiency

The Issuer shall not be entitled to exercise its option pursuant to any of Conditions 7(b), (c), (d), (e) or (j) to redeem, substitute or vary the terms of any of the Capital Securities, in each case until such time as the Issuer has available for, and the Directors have the corresponding authority to, issue such number of Payment Eligible Securities of one or more classes as is required to be issued in accordance with this Condition 6 for the purposes of satisfying in full in accordance with this Condition 6 any AISM Payment required to be satisfied in connection with such redemption, substitution or variation of the terms of the Capital Securities.

(e) ***Market Disruption***

Notwithstanding the provisions of Condition 6(b), if there exists, in the opinion of the Issuer, a Market Disruption Event with respect to Payment Eligible Securities of any class on or after the 15th Business Day preceding any AISM Payment Date, then the Issuer may give a notice to the Trustee, the Principal Paying Agent, the Calculation Agent and (in accordance with Condition 15) the Holders as soon as possible after the Market Disruption Event has arisen or occurred, whereupon the relevant AISM Payment may be deferred until such time as the Market Disruption Event, in the opinion of the Issuer, no longer exists.

Any such deferred AISM Payment will be satisfied as soon as practicable following such time as the Market Disruption Event no longer exists. Interest shall not accrue on such deferred AISM Payment, unless, as a consequence of the existence of the relevant Market Disruption Event, the Issuer does not satisfy the relevant AISM Payment for a period of 14 days or more after the due date therefor, in which case interest shall accrue on such deferred AISM Payment from (and including) the date on which the relevant AISM Payment was due to be made to (but excluding) the date on which such AISM Payment is made. Any such interest shall accrue at a rate determined in accordance with Condition 4 and shall be satisfied only in accordance with this Condition 6, as soon as reasonably practicable after the relevant deferred AISM Payment is made. No liability shall attach to the Trustee or its agent if, as a result of a Market Disruption Event or any other event outside the control of the Trustee or its agent, the Trustee or its agent is unable to comply with the provisions of Condition 6(b).

(f) ***Listing***

The Issuer shall ensure (to the extent possible) that, at the time when any Ordinary Shares are issued pursuant to this Condition 6, such Ordinary Shares are admitted to the Official List and are admitted to trading on the Market (or, if the London Stock Exchange is not a Recognised Stock Exchange at that time, such other stock exchange as is a Recognised Stock Exchange at that time).

7 Redemption, Substitution, Variation and Purchase

(a) ***No Fixed Redemption Date***

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3 and without prejudice to the provisions of Condition 11) only have the right to repay them, substitute them, vary their terms or purchase them in accordance with the following provisions of this Condition 7 or in the circumstances provided for in Condition 8(d).

(b) ***Issuer's Call Option***

Subject to Conditions 3(a) and 7(f), the Issuer may, by giving not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 15, the Trustee and the Principal Paying Agent, which notice shall be irrevocable, elect to redeem all, but not some only, of the Capital Securities on 2 May 2017 (the "**First Reset Date**") or any Interest Payment Date thereafter at their principal amount together with any Outstanding interest (such redemption amounts to be payable in cash in accordance with Condition 8, save for any Deferred Interest Payments which will be satisfied by the operation of Condition 6 and any other amounts in respect of interest which may at the option of the Issuer be satisfied by the operation of Condition 6).

(c) ***Redemption Due to Taxation***

If, immediately prior to the giving of the notice referred to below, as a result of a Tax Law Change:

- (i) in making any payments on the Capital Securities, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts on the Capital Securities; or

- (ii) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or
- (iii) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date the Issuer would not to any material extent be entitled to have such deduction 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 25 April 2007 or any similar system or systems having like effect as may from time to time exist),

and in each such case the Issuer cannot avoid the foregoing in connection with the Capital Securities by taking measures reasonably available to it, then the Issuer may, subject to Conditions 3(a) and 7(f) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent (if any) and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), redeem in accordance with these Conditions at any time prior to the First Reset Date all, but not some only, of the Capital Securities at their principal amount, together, in each case, with any Outstanding interest (all such amounts so payable being payable in cash in accordance with Condition 8, save for any Deferred Interest Payments which will be satisfied by the operation of Condition 6 and any other amounts in respect of interest which may at the option of the Issuer be satisfied by the operation of Condition 6). Upon expiry of such notice, the Issuer shall redeem the Capital Securities.

(d) *Redemption for Regulatory Purposes*

If, immediately prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Conditions 3(a) and 7(f) and having given not less than 30 nor more than 60 days' notice to the Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent (if any) (which notice shall be irrevocable), redeem in accordance with these Conditions all, but not some only, of the Capital Securities at any time prior to the First Reset Date. Upon expiry of such notice, the Issuer shall redeem the Capital Securities.

Each Capital Security shall be redeemed at the Make Whole Redemption Price, together with any Outstanding interest (all such amounts so payable being payable in cash in accordance with Condition 8, save for any Deferred Interest Payments which will be satisfied by the operation of Condition 6 and any other amounts in respect of interest which may at the option of the Issuer be satisfied by the operation of Condition 6).

(e) *Substitution or Variation Instead of Redemption*

If an event or circumstance giving rise to a right of the Issuer to redeem the Capital Securities under Condition 7(c) or 7(d) above has occurred and is continuing, then the Issuer may instead of giving notice to redeem, subject to Conditions 3(a) and 7(f) (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent (if any) and, in accordance with Condition 15, the Holders (which notice shall be irrevocable), substitute at any time all (but not some only) of the Capital Securities for, or vary the terms of the Capital Securities so that they remain or become (as the case may be) Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this Condition 7(e) and subject to the receipt by it of the certificate of the Authorised Signatories referred to in Condition 7(f) below and in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall vary the terms of or, as the case may be, substitute the Capital Securities in accordance with this Condition 7(e).

If the Capital Securities are to be substituted for preference shares, the procedures specified in Conditions 7(j)(iii) to 7(j)(vi) shall also apply to such substitution.

In connection therewith, all Deferred Interest Payments (if any) will be satisfied by the operation of Condition 6. The Trustee shall use its reasonable endeavours to assist the Issuer in the substitution of the Capital Securities for, or the variation of the terms of the Capital Securities so that they remain or become (as the case may be), Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the Issuer may redeem the Capital Securities as provided above.

In connection with any substitution or variation in accordance with this Condition 7(e), the Issuer shall comply with the rules of any stock exchange on which the Capital Securities are for the time being listed or admitted to trading.

(f) *Preconditions to Redemption, Substitution and Variation*

Any redemption, substitution or variation of the terms or purchase of the Capital Securities in accordance with Condition 7(b), (c), (d), (e) or (j) is subject to the Issuer giving at least one month's prior written notice to, and receiving no objection from or, in the case of any redemption, substitution or variation of the terms of the Capital Securities prior to 2 May 2012, receiving the consent of, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that any such notice is required to be given). Any such substitution for an instrument which does not have terms equivalent to Condition 6 or any such redemption shall be conditional on the terms of Condition 6(d) being satisfied prior thereto and all Deferred Interest Payments (if any) and Accrued Interest Payments (if any) being satisfied in full by the operation of Condition 6 and the Trust Deed on or prior to the date thereof.

Prior to the publication of any notice of redemption, substitution or variation pursuant to this Condition 7 (other than redemption pursuant to Condition 7(b)), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or vary is satisfied and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs in which event it shall be conclusive and binding on the Trustee and the Holders.

(g) *Purchases*

The Issuer or any Subsidiary may, subject to Condition 3(a) and having given at least one month's prior written notice to the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that any such notice is required to be given) and no notice of objection being given by the FSA, at any time purchase Capital Securities in any manner and at any price. In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto.

The Issuer intends to enter into a replacement capital covenant for the benefit of one or more designated series of the Issuer's debt securities. It is anticipated that the terms of such replacement capital covenant will provide that the Issuer will not redeem or repurchase any Capital Securities, and will not permit any subsidiary to purchase any Capital Securities, unless and to the extent the aggregate redemption, repurchase or purchase price is equal to or less than the net proceeds (or in certain circumstances a specified percentage of such net proceeds) received by the Issuer or its subsidiaries, during the six months prior to such redemption, repurchase or purchase date, from new issuances of qualifying securities and that the covenant will terminate on the redemption of the Capital Securities if not terminated earlier in accordance with its terms. The replacement capital

covenant will continue to be effective following any substitution or variation of the Capital Securities in accordance with their terms.

(h) Cancellation

All Capital Securities redeemed or substituted by the Issuer pursuant to this Condition 7 (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith) will be cancelled. All Capital Securities purchased by or on behalf of the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation (together with all unmatured Coupons and all unexchanged Talons attached thereto or exchanged therewith) to the Principal Paying Agent. Any Capital Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Capital Securities shall be discharged.

(i) Trustee Not Obligated to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 7 or whether a Suspension under Condition 8(d) has occurred and will not be responsible to Holders 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 or the occurrence of a Suspension under Condition 8(d), it shall be entitled to assume that no such event or circumstance exists.

(j) Substitution for Substituted Preference Shares

- (i) At any time a Capital Breach Event has occurred and is continuing, the Issuer may (subject to Condition 7(f) and the provisions of this Condition 7(j) and without any requirement for the consent or approval of the Holders) give not less than 30 nor more than 60 days' notice thereof, and of its intention to effect a Preference Share Substitution (as defined below), ("**Substitution Notice**") to the Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent (if any) (which notice shall be irrevocable), and shall on the expiry of such notice (the "**Substitution Date**") cause the substitution in accordance with this Condition 7(j) of all (but not some only) of the Capital Securities for fully paid non-cumulative perpetual preference shares issued directly by the Issuer (the "**Substituted Preference Shares**") (such substitution being referred to herein as a "**Preference Share Substitution**").

The Issuer may only effect a Preference Share Substitution if, prior to the delivery of the relevant Substitution Notice, it has created (and is maintaining) a sufficient number of authorised (but unissued) Substituted Preference Shares to effect the Preference Share Substitution in accordance with this Condition 7(j) and has obtained (and is maintaining) the corporate authorisations necessary to effect the substitution of the Capital Securities for the Substituted Preference Shares (including, but not limited to, the necessary resolutions of the shareholders of the Issuer to authorise the Directors to issue and allot the Substituted Preference Shares).

The terms of the Substituted Preference Shares shall provide that (x) the Substituted Preference Shares may only be redeemed on 2 May 2017 (being the same date as the First Reset Date) or any dividend payment date thereafter (save for redemption, substitution or variation on terms analogous to the terms of Condition 7(d) or Condition 7(e) (to the extent that it relates to a Capital Disqualification Event) and subject to the same conditions as those set out in Condition 7(f)); (y) that the Issuer has the right to choose whether or not to pay any dividend on the Substituted Preference Shares; and (z) that any dividend payable on the Substituted Preference Shares shall be non-cumulative (and accordingly there shall be no provision analogous to the AISM incorporated in the terms of the Substituted Preference Shares), and otherwise shall in all material commercial respects provide the holders thereof with at least the same economic rights and benefits (including those relating to non-cumulative (except as aforesaid) distributions and ranking) as are attached to the Capital Securities and the Coupons taken

together (save that the terms of the Substituted Preference Shares need not contain a step up in the dividend rate) (such terms to be as reasonably determined by the Issuer, and in connection therewith a certificate signed by two Authorised Signatories to the effect that the terms of the Substituted Preference Shares comply with the foregoing shall be delivered to the Trustee prior to the Issuer being able to effect such Preference Share Substitution and the Trustee shall be entitled to accept the certificate as sufficient evidence of such compliance in which event it shall be conclusive and binding on the Holders and the Couponholders).

- (ii) In connection with any Preference Share Substitution in accordance with this Condition 7(j), all Deferred Interest Payments and Accrued Interest Payments (if any) will be satisfied on the Substitution Date by the operation of Condition 6.
- (iii) The Issuer shall enclose with the Substitution Notice a substitution confirmation (the “**Substitution Confirmation**”) which each Holder will be required to complete, and which shall require each Holder to provide to the Issuer such information as the Issuer may reasonably require to be able to effect a Preference Share Substitution in accordance with this Condition 7(j). The form of such Substitution Confirmation shall also be made available at the specified office of each Paying Agent. To receive Substituted Preference Shares in respect of its holding of Capital Securities, each Holder must deliver to a Paying Agent a duly completed Substitution Confirmation together with all relevant Capital Securities held by it on the Business Day prior to the Substitution Date. Any such Preference Share Substitution shall be effected subject in each case to any applicable fiscal laws or other laws or regulations. Certificates (if any) for Substituted Preference Shares issued on a Preference Share Substitution will be despatched by or on behalf of the Issuer by mail free of charge (but uninsured and at the risk of the person entitled thereto) within one month of the later of the Substitution Date and receipt of a duly completed Substitution Confirmation. Holders will continue to be entitled to receive payments in respect of the Capital Securities until the Substitution Date (provided that the Substituted Preference Shares are available for issue as aforesaid from the Substitution Date and the Issuer makes the payment referred to in Condition 7(j)(ii)) and thereafter Holders will have no further rights, title or interest in or to their Capital Securities except to have them substituted in the manner described in this Condition 7(j). Each Substituted Preference Share allotted will rank for any dividend from the Substitution Date and will, without prejudice to Condition 7(j)(ii), have no entitlement to any Accrued Interest Payment or any other payment on the Capital Securities.
- (iv) The Issuer will pay any stamp duty reserve taxes or capital duties or stamp duties or similar taxes payable in the United Kingdom arising on the allotment and issue of the Substituted Preference Shares. The Issuer will not be obliged to pay, and each Holder delivering Capital Securities and a duly completed Substitution Confirmation to a Paying Agent must pay, any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on the relevant Preference Share Substitution. The Issuer will not be obliged to pay, and each Holder must pay, all, if any, taxes arising by reference to any disposal or deemed disposal of a Capital Security in connection with such Preference Share Substitution. If it would have an adverse effect on the stamp duty, stamp duty reserve tax or other documentary or registration tax or duty position of the Holders or the Couponholders (or of any purchaser of the Substituted Preference Shares in respect of the purchase from the person to whom the Substituted Preference Shares are originally allotted) for the Substituted Preference Shares not to be deposited on issue with a common depositary on behalf of Euroclear or Clearstream, Luxembourg, the Issuer shall use all reasonable endeavours to procure that the Substituted Preference Shares are so deposited and that no election is made in respect of the Substituted Preference Shares in accordance with section 97A of the Finance Act 1986.
- (v) Prior to the publication of a Substitution Notice, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories stating that a Capital Breach Event has occurred and is continuing as at the date of the certificate, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the occurrence and continuation of such Capital

Breach Event in which event it shall be conclusive and binding on the Holders and Couponholders.

- (vi) Following delivery by the Issuer of a Substitution Notice, the Issuer shall use all reasonable endeavours to obtain and maintain a listing of the Substituted Preference Shares on a Recognised Stock Exchange.
- (vii) In connection with any Preference Share Substitution, the Issuer shall comply with the rules of any stock exchange on which the Capital Securities are for the time being listed or admitted to trading.
- (viii) The provisions of this Condition 7(j) will apply *mutatis mutandis* to Condition 7(e) in the event that the Qualifying Tier 1 Securities for which the Capital Securities may be substituted in accordance with Condition 7(e) comprise Substituted Preference Shares.
- (ix) Notwithstanding any other provision of this Condition 7(j), the Issuer shall be entitled to take such steps as it may determine to be necessary or desirable to avoid or mitigate any stamp duty, stamp duty reserve tax or other tax consequences arising in relation to the issue of Substituted Preference Shares, and its obligations under this Condition 7(j) in respect of a Preference Share Substitution shall be satisfied if there shall be issued and delivered to the Holders perpetual non-cumulative securities issued by another entity and secured on Substituted Preference Shares and representing and/or passing through to Holders the economic effect of such Substituted Preference Shares and in particular with provisions relating to payments which match those in relation to the Substituted Preference Shares (as to timing and amount, and as to waiver and subordination) and provided that:
 - (a) if at the relevant time the Substituted Preference Shares are rated by one or more Rating Agency, each such Rating Agency shall assign the same rating to such perpetual non-cumulative securities as it has assigned to the Substituted Preference Shares; or
 - (b) if at the relevant time the Substituted Preference Shares are not rated by any Rating Agency, an independent investment bank of international repute, selected by the Issuer and approved by the Trustee, shall have confirmed to the Issuer that in its opinion, if a rating were to be given to the Substituted Preference Shares at such time by a Rating Agency, such Rating Agency would be likely to assign at least the same rating to such perpetual non-cumulative securities.

8 Payments

(a) Method of Payment

- (i) Payments of principal, premium and interest will be made against presentation and surrender of Capital Securities or the appropriate Coupons (as the case may be) at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on an Interest Payment Date will only be made against presentation and either surrender or endorsement (as appropriate) of the relevant Capital Securities. Such payments will be made, at the option of the payee, by pounds sterling cheque drawn on, or by transfer to a pounds sterling account maintained by the payee with, a bank in London.
- (ii) Upon the due date for redemption of any Capital Securities, any unexchanged Talon relating to such Capital Securities (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon and unmatured Coupons relating to such Capital Securities (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Capital Security is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(iii) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Capital Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11).

(b) *Payments Subject to Fiscal Laws*

Without prejudice to the terms of Condition 10, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders or Couponholders in respect of such payments.

(c) *Payments on Business Days*

A Capital Security or Coupon may only be presented for payment on a day which is a Business Day in the place of presentation (and, in the case of payment by transfer to a pounds sterling account, in London). No further interest or other payment will be made as a consequence of the day on which the relevant Capital Security or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition, “**Business Day**” means a day on which commercial banks and foreign exchange markets are open in the relevant city.

(d) *Suspension*

If, following any take-over offer made under the City Code on Take-overs and Mergers or any reorganisation, restructuring or scheme of arrangement, the company which, immediately prior to such event, was the Ultimate Owner ceases to be the Ultimate Owner, then the Issuer shall as soon as practicable give notice to the Holders in accordance with Condition 15, the Trustee, the Principal Paying Agent and the Calculation Agent (if any), whereupon the operation of the AISM shall be suspended (such event being a “**Suspension**”). In such event, unless a Permitted Restructuring Arrangement shall be put in place within six months of the occurrence of a Permitted Restructuring (in which case the Suspension shall cease upon such Permitted Restructuring Arrangement being put in place), an independent investment bank or financial institution appointed by the Issuer (at the Issuer’s expense) and approved by the Trustee shall determine, subject to the requirements that: (i) the Issuer shall not be obliged to reduce its net assets; (ii) no amendment may be proposed or made which would alter the regulatory capital treatment of the Capital Securities for regulatory capital and solvency purposes unless the Issuer has given at least one month’s prior written notice to, and received no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that such notice is required to be given); and (iii) no such amendment may be made which would, in the Trustee’s opinion, impose more onerous obligations on it without its consent, what amendments (if any) to these Conditions, the Trust Deed and any other relevant documents are appropriate in order (aa) to preserve substantially the economic effect, for the Holders, of a holding of the Capital Securities prior to the Suspension and (bb) to replicate the AISM in the context of the capital structure of the new Ultimate Owner. Upon any such determination being reached and notified to the Trustee and the Issuer by such investment bank or financial institution, the Trustee and the Issuer shall, pursuant to the terms of the Trust Deed and without any requirement for the consent or the approval of the Holders or Couponholders, effect any necessary consequential changes to these Conditions and the Trust Deed and any other relevant documents, whereupon the satisfaction of any AISM Payment (when due) by the method contemplated in Condition 6 shall no longer be subject to the Suspension.

If, after using all reasonable endeavours, such investment bank or financial institution is unable to formulate such amendments, it shall so notify the Issuer, the previous Ultimate Owner (if not the Issuer), the new Ultimate Owner, the Trustee, the Principal Paying Agent and the Calculation Agent (if any) and the Capital Securities shall (subject in each case to the Issuer giving at least one month’s prior written notice to, and receiving consent from, the FSA (or such other period of notice as the FSA

may from time to time require or accept and, in any event, provided that such notice is required to be given) and with the prior agreement of the new Ultimate Owner) at the option of the Issuer and without any requirement for the consent or the approval of the Holders or Couponholders either be substituted for, or have their terms varied so that they remain, or as the case may be, become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or be redeemed, in each case as described below.

If the Capital Securities are to be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, the Issuer shall give not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent (if any) and, in accordance with Condition 15, the Holders (which notice shall be irrevocable) and all (but not some only) of the Capital Securities will be substituted for, or have their terms varied so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, and the Trustee shall (subject to the following provisions of this paragraph and subject to the receipt by it of the certificate of the Authorised Signatories referred to in the definition of Qualifying Tier 1 Securities or (as the case may be) Qualifying Upper Tier 2 Securities and subject further to the receipt by it of the notification of the relevant investment bank or financial institution referred to above) agree to such substitution or variation. In connection therewith, all Deferred Interest Payments (if any) will either (at the option of the Issuer) (x) be carried over such that the rights of the Holders with respect thereto are preserved in the new Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or (y) be satisfied (unless otherwise agreed by the Issuer and the Trustee) by the issue of Eligible Securities to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue ordinary shares in its capital (or shares in its capital of an equivalent class) or Ultimate Owner Eligible Securities so as to enable it to satisfy the amount of such Deferred Interest Payments in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Eligible Securities being construed as references to such ordinary shares or equivalent securities in the capital of the new Ultimate Owner or Ultimate Owner Eligible Securities which, when sold, provide a net cash amount of not less than the amount of such Deferred Interest Payments which fall to be satisfied by the Issuer). The Trustee shall use its reasonable endeavours to participate in or assist the Issuer with the substitution of the Capital Securities for, or the variation of the terms of the Capital Securities so that they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities, provided that the Trustee shall not be obliged to participate in or assist with any such substitution or variation if the terms of the proposed alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If, notwithstanding the above, the Trustee does not participate or assist as provided above, the FSA does not consent to such substitution or variation or it is otherwise not practicable for the Capital Securities to be substituted or varied as described above, the Issuer may, subject to Condition 7(f), elect to redeem the Capital Securities as provided in this Condition 8(d). In connection with any substitution or variation in accordance with this Condition 8(d), the Issuer shall comply with the rules of any stock exchange on which the Capital Securities are for the time being listed or admitted to trading.

If the Capital Securities are to be redeemed by the Issuer in accordance with this Condition 8(d), the Issuer shall give notice thereof to the Trustee, the Principal Paying Agent, the Calculation Agent (if any) and, in accordance with Condition 15, the Holders (which notice shall be irrevocable and which shall expire as soon as practicable after consent from the FSA) and all (but not some only) of the Capital Securities will be redeemed at (in the case of any redemption prior to the First Reset Date) their Make Whole Redemption Price or (on or after the First Reset Date) their principal amount, together in each case with any Outstanding interest, not later than the 60th Business Day following the giving of such notice by the Issuer to the Holders. Such redemption will, unless otherwise agreed by the Issuer and the Trustee, be effected by the issue of Eligible Securities to the new Ultimate Owner in consideration for which the new Ultimate Owner shall issue ordinary shares in its capital (or shares in its capital of an equivalent class) or Ultimate Owner Eligible Securities so as to enable it to satisfy such redemption amount in accordance, *mutatis mutandis*, with Conditions 6(b), 6(c), 6(d) and 6(e) (with references to the Payment Eligible Securities being construed as references to such ordinary

shares or equivalent securities in the capital of the new Ultimate Owner or Ultimate Owner Eligible Securities which, when sold, provide a net cash amount of not less than the redemption amount which falls to be satisfied by the Issuer).

9 Non-Payment when Due

Notwithstanding any of the provisions below in Condition 9, the right to institute winding-up proceedings is limited to circumstances where payment has become due. No principal, premium, interest or any other amount will be due unless the condition to payment set out in Condition 3(a) is satisfied. Also, in the case of any Interest Payment, such payment will not be due if the Issuer has elected to defer that Payment pursuant to Condition 5 or if the circumstances referred to in any of Conditions 6(d), 6(e) or 8(d) then apply.

The Trust Deed contains provisions entitling the Trustee to claim from the Issuer, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Trust Deed. The restrictions on commencing proceedings described below will not apply to any such claim.

(a) Proceedings for Winding-up

If the Issuer shall not make payment in respect of the Capital Securities (in the case of payment of principal and/or premium) for a period of seven days or more or (in the case of any Interest Payment, Deferred Interest Payment, Accrued Interest Payment or any other amount in respect of interest) for a period of 14 days or more, in each case after the date on which such payment is due, the Issuer shall be deemed to be in default under the Trust Deed, the Capital Securities and the Coupons and the Trustee may, notwithstanding the provisions of Condition 9(b), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

(b) Enforcement

Without prejudice to Condition 9(a) and subject as provided in Condition 18, 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, the Capital Securities or the Coupons (other than any payment obligation of the Issuer under or arising from the Capital Securities, the Coupons or the Trust Deed, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Capital Securities or the Coupons, including any damages awarded for breach of any obligations) and 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 9(b) shall, however, prevent the Trustee instituting proceedings for the winding-up of the Issuer, proving in any winding-up of the Issuer and/or claiming in any liquidation of the Issuer in respect of any payment obligations of the Issuer arising from the Capital Securities, the Coupons or the Trust Deed (including any damages awarded for breach of any obligations).

(c) Entitlement of Trustee

The Trustee shall not be bound to take any of the actions referred to in Condition 9(a) or (b) above against the Issuer to enforce the terms of the Trust Deed, the Capital Securities or the Coupons unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the holders of at least one-quarter in principal amount of the Capital Securities then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.

(d) Right of Holders

No Holder or Couponholder 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 Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 9.

(e) *Extent of Holders' remedy*

No remedy against the Issuer, other than as referred to in this Condition 9, shall be available to the Trustee or the Holders or Couponholders, whether for the recovery of amounts owing in respect of the Capital Securities 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 Capital Securities, Coupons or under the Trust Deed.

10 Taxation

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Capital Securities and the Coupons shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holders and the Couponholders 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 Capital Security or Coupon presented for payment:

- (a) by or on behalf of a Holder or Couponholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Capital Security or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Capital Security or Coupon;
- (b) 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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (c) by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Capital Security or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such period of 30 days.

References in these Conditions to principal, premium, Interest Payments, Deferred Interest Payments, Accrued Interest Payments and/or any other amount in respect of interest shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

11 Prescription

Claims in respect of Capital Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Capital Securities and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition or Condition 8(a)(ii) or any Talon which would be void pursuant to Condition 8(a)(ii).

12 Meetings of Holders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a

modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Holders holding not less than 10 per cent. in principal amount of the Capital Securities for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Capital Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Holders whatever the principal amount of the Capital Securities so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Conditions 2 and 3, the terms concerning currency and due dates for payment of principal, any applicable premium or Interest Payments in respect of the Capital Securities and reducing or cancelling the principal amount of any Capital Securities, any applicable premium or the Interest Rate) and certain other provisions of the Trust Deed the quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in principal amount of the Capital Securities for the time being outstanding. The agreement or approval of the Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Conditions 7(e) and 8(d) in connection with the variation of the terms of the Capital Securities so that they become alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities (as the case may be), and to which the Trustee has agreed pursuant to the relevant provisions of Conditions 7(e) or 8(d), as the case may be.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting, and on all Couponholders.

The Trustee may agree, without the consent of the Holders or Couponholders, to (i) any modification of any of the provisions of these Conditions, any other provisions of the Trust Deed, the Paying Agency Agreement or the Calculation Agency Agreement (if any) which is of a formal, minor or technical nature or is made to correct a manifest error or an error which is, in the opinion of the Trustee, proven, and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of these Conditions, any other provisions of the Trust Deed or the Paying Agency Agreement or the Calculation Agency Agreement (if any) which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provisions entitling the Holders to institute proceedings for the winding up of the Issuer which are more extensive than those set out in Condition 9). Any such modification, authorisation or waiver shall be binding on the Holders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Holders as soon as practicable. No modification to these Conditions or any other provisions of the Trust Deed shall become effective unless the Issuer shall have given at least one month's prior written notice to, and received no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that there is a requirement to give such notice).

The Trust Deed contains provisions permitting the Trustee, subject to the Issuer giving at least one month's prior written notice to, and receiving no objection from, the FSA (or such other period of notice as the FSA may from time to time require or accept and, in any event, provided that there is a requirement to give such notice) to agree, subject to the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution and to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Holders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities (any such entity, a "**Substitute Obligor**") in place of the Issuer (or any previous Substitute Obligor under this Condition) as a new principal debtor under the Trust Deed, the Capital Securities and the Coupons.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its functions (including but not limited to those referred to in this Condition 12), the Trustee shall not have regard to the consequences of such substitution or such exercise for individual Holders or Couponholders. In connection with any substitution or such exercise as aforesaid, no Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substitute Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual

Holders or Couponholders except to the extent already provided in Condition 10 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 15 as soon as practicable thereafter.

13 Replacement of the Capital Securities, Coupons and Talons

If any Capital Security, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent (or any other place of which notice shall have been given in accordance with Condition 15) subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require (provided that such requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Capital Securities, Coupons or Talons must be surrendered before any replacement Capital Securities, Coupons or Talons will be issued.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of, and/or the provision of security for, the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

15 Notices

Notices to Holders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Holders in accordance with this Condition.

16 Further Issues

The Issuer may from time to time without the consent of the Holders or the Couponholders create and issue further Capital Securities ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Capital Securities) and so that such further issue shall be consolidated and form a single series with the outstanding Capital Securities. Any such Capital Securities shall be constituted by a deed supplemental to the Trust Deed.

17 Agents

The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent or Calculation Agent and to appoint additional or other Paying Agents or (as the case may be) another Calculation Agent (if a Calculation Agent has already been appointed), provided that it will:

- (a) at all times maintain a Principal Paying Agent;
- (b) Paying Agents having specified offices in at least two major European cities approved by the Trustee (including London, so long as the Capital Securities are admitted to the Official List and admitted to trading on the Market);
- (c) whenever a function expressed in these Conditions to be performed by the Agent Bank or by the Calculation Agent falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank and/or, as appropriate, a Calculation Agent; and

- (d) insofar as the Issuer would be obliged to pay additional amounts pursuant to Condition 10 upon presentation of the Capital Security or Coupon, as the case may be, for payment in the United Kingdom, maintain a Paying Agent having a specified office in a major city in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to such Directive which is approved by the Trustee.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 15. If the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank or financial institution acceptable to the Trustee to act as such in its place. Under no circumstances shall the Trustee be required to appoint a Calculation Agent (where the Issuer has failed to do so or otherwise), and the Trustee shall not be responsible, or liable to any person, for the consequences of any failure by the Issuer to appoint a Calculation Agent. None of the Issuer, the Trustee, the Agent Bank and the Paying Agents shall have any responsibility to any person for any errors or omissions in any calculation, or any sale of Eligible Securities made pursuant to Condition 6 or otherwise, by the Calculation Agent.

18 Authorisations

The Issuer shall, subject to compliance with the requirements of the Companies Act, use all reasonable endeavours to obtain and maintain at all times all corporate authorisations and take any other corporate actions required for the issue and allotment of such number of Eligible Securities as it reasonably considers would be required to be issued in order to enable the Issuer to make a payment satisfying the aggregate amount of AISM Payments (if any) and, prior to the First Reset Date, the Interest Payment due on the next two Interest Payment Dates and, after the First Reset Date, the aggregate of the Interest Payments due on the next four succeeding Interest Payment Dates (or such longer period as, in the opinion of the Directors of the Issuer, is prudent having regard to amounts which may become payable through the operation of Condition 6), provided that such reasonable endeavours shall be satisfied where the relevant corporate authorisation or action required is to be obtained or done by the passing of a resolution of the shareholders of the Issuer and the Directors of the Issuer propose the relevant resolution to its shareholders for approval at any general meeting of the Issuer and, if such proposal is rejected, the relevant resolution is proposed again at the next general meeting of the Issuer.

No damages will be payable for breach of this covenant but, in the event of breach by the Issuer of this Condition 18, the Trustee may require the Issuer to put before the next general meeting of the Issuer a resolution to remedy the breach.

The Trustee shall not be obliged to monitor compliance by the Issuer with this Condition and shall be entitled to assume, unless it has actual knowledge to the contrary, that the Issuer is complying with its obligations under this Condition.

Any authorised but unissued Eligible Securities which the Issuer is required to maintain other than in connection with the Capital Securities shall be discounted in determining whether the Issuer is complying with its obligations under this Condition 18.

19 Governing Law

The Trust Deed, the Capital Securities, the Coupons and the Talons are governed by, and shall be construed in accordance with, the laws of England.

20 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Capital Securities by virtue of the Contracts (Rights of Third Parties) Act 1999.

21 Definitions

In these Conditions:

“**Accrued Interest Payment**” means, as at any given time, where these Conditions provide that interest shall continue to accrue after an Interest Payment Date in respect of a Capital Security, the amount of interest accrued thereon at that time in accordance with Condition 4(b) or 6(e), as the case may be;

“**Additional Amounts**” has the meaning given to it in Condition 10;

“**Agent Bank**” has the meaning given to it in the preamble to these Conditions;

“**AIMS Payment**” means any Deferred Interest Payment and/or any Accrued Interest Payment pursuant to either Condition 6(e) or Condition 7(j) and any other Interest Payment in respect of which the Issuer has at its option notified the Trustee, the Principal Paying Agent and the Calculation Agent not less than 16 Business Days prior to the relevant Interest Payment Date that such Interest Payment is to be satisfied in accordance with Condition 6 on such Interest Payment Date which will thereby become an AISM Payment Date;

“**AIMS Payment Date**” means the date on which an AISM Payment is due to be satisfied pursuant to these Conditions provided that where the provisions of Condition 6(e) cause an AISM Payment to be deferred, references therein to “**AIMS Payment Date**” shall be to the date on which such AISM Payment would otherwise have been due to be satisfied had such AISM Payment not been deferred pursuant to Condition 6(e);

“**Alternative Interest Satisfaction Mechanism**” or “**AIMS**” means the mechanism described in Condition 6;

“**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 in such manner as the Directors or, if the Issuer is in a winding-up or administration, its liquidator or administrator may determine;

“**Authorised Signatories**” has the meaning given to it in the Trust Deed;

“**Business Day**” means 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;

“**Calculation Agency Agreement**” means any agreement entered into by the Issuer, the Trustee and the Calculation Agent in respect of the appointment of the Calculation Agent to perform the functions expressed to be performed by the Calculation Agent under these Conditions;

“**Calculation Agent**” means the independent investment bank or financial institution, appointed on the terms of a Calculation Agency Agreement, selected by the Issuer and approved by the Trustee, for the purposes of performing the functions expressed to be performed by it under these Conditions;

“**Capital Breach Event**” means the occurrence of a breach by the Issuer or the Group or any member of the Group of the capital adequacy requirements, guidelines or measures or any other Regulatory Capital Requirements, guidelines or measures applicable to the Issuer or the Group or any member of the Group, as the case may be (whether or not such requirements, guidelines or measures have the force of law and whether they are applied generally or specifically to the Issuer or the Group or any member of the Group, as the case may be);

“**Capital Disqualification Event**” is deemed to have occurred (1) if the Capital Securities would no longer be eligible to qualify (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) for inclusion in the Tier 1 Capital of the Issuer on a solo and/or consolidated basis or (2) if at any time the Issuer or the Group is required under Regulatory Capital Requirements to have Tier 1 Capital and the Issuer would be entitled pursuant to Condition 7(j) to substitute the Capital Securities by Substituted Preference Shares, such Substituted Preference Shares would no longer be eligible to qualify (save as aforesaid) for inclusion in the Tier 1 Capital of the Issuer on a solo and/or consolidated basis;

“**Capital Securities**” has the meaning given to it in the preamble to these Conditions;

“**Clearstream, Luxembourg**” means Clearstream Banking, société anonyme;

“**Companies Act**” means the Companies Act 1985 (as amended);

“**Conditions**” means these terms and conditions of the Capital Securities, as amended from time to time;

“**Coupon**” has the meaning given to it in the preamble to these Conditions;

“**Couponholder**” has the meaning given to it in the preamble to these Conditions;

“**Deferred Interest Payment**” means (i) any Interest Payment which, pursuant to Condition 5, the Issuer has elected to defer and which has not been satisfied and (ii) any Interest Payment which, by reason of the conditions to payment set out in Condition 3(a), has not been satisfied;

“**Directors**” means the directors of the Issuer;

“**Eligible Company**” means a company incorporated in a member state of the European Union or in the United States of America by or on behalf of the Issuer whose ordinary shares are listed (i) on the Official List and are admitted to trading on the Market or (ii) on such other stock exchange as is a Recognised Stock Exchange at the time as the Trustee may approve;

“**Eligible Securities**” means Ordinary Shares, PIK Securities or other Preferred Parity Securities;

“**Euroclear**” means Euroclear Bank S.A./N.V.;

“**Financial Services Authority**” or “**FSA**” means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary supervisory authority with respect to the Group;

“**First Reset Date**” has the meaning given to it in Condition 7(b);

“**Fixed Interest Rate**” has the meaning given to it in Condition 4(c);

“**Fixed Rate Interest Period**” means the period from (and including) the Issue Date to (but excluding) the First Reset Date;

“**Floating Interest Amounts**” has the meaning given to it in Condition 4(e);

“**Floating Interest Rate**” has the meaning given to it in Condition 4(d);

“**Group**” means the Issuer and its Subsidiaries;

“**Holder**” has the meaning given to it in the preamble to these Conditions;

“**holding company**” has the meaning given to it under Section 736 of the Companies Act;

“**Intent-Based Replacement Disclosure**” means, in relation to any non-cumulative perpetual preference share of the type referred to in the definition of Preferred Parity Securities, that the Issuer has publicly stated its intention, in the prospectus or other offering document under which such securities were initially offered for sale, that the Issuer and its subsidiaries will repay, redeem, repurchase or purchase such securities only with the proceeds of replacement capital securities that have terms and provisions at the time of repayment, redemption, repurchase or purchase that are as, or more, equity-like than the securities then being repaid, redeemed, repurchased or purchased, raised within 180 days prior to the delivery of the relevant notice of repayment or redemption or the date of such repurchase or purchase;

“**interest**” shall, where appropriate, include Interest Payments, Deferred Interest Payments and Accrued Interest Payments;

“Interest Determination Date” means, in relation to each Interest Period from and including the Interest Period beginning on the First Reset Date, the first day of the relevant Interest Period save that if the First Reset Date is not a Business Day, the Interest Determination Date in respect of the Interest Period commencing on the First Reset Date shall be the first Business Day after the First Reset Date;

“Interest Payment” means (i) in respect of an Interest Payment Date, the interest calculated in accordance with the Conditions for the Interest Period ending on such Interest Payment Date and (ii) for the purposes of Conditions 7(c), 7(d) and 8(d), any interest accrued from (and including) the preceding Interest Payment Date (or, if none, the Issue Date) to (but excluding) the due date for redemption if not an Interest Payment Date;

“Interest Payment Date” means (i) in respect of the period from the Issue Date to (and including) the First Reset Date, 2 May and 2 November in each year, starting on (and including) 2 November 2007 and (ii) after the First Reset Date, 2 February, 2 May, 2 August and 2 November in each year, starting on (and including) 2 August 2017, provided that if any Interest Payment Date after the First Reset Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

“Interest Period” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“Interest Rate” means the Fixed Interest Rate and/or the Floating Interest Rate, as the case may be;

“Issue Date” means 2 May 2007, being the date of the initial issue of the Capital Securities;

“Issuer” means Legal & General Group Plc;

“Junior Securities” means the Ordinary Shares and any other securities of the Issuer or any other member of the Group ranking or expressed to rank junior to the Capital Securities either issued directly by the Issuer or, where issued by another member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by the Issuer which ranks or is expressed to rank junior to the Capital Securities. For the avoidance of doubt, the ordinary shares of a Subsidiary of the Issuer shall not constitute Junior Securities unless they benefit from such a guarantee or support agreement;

“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 in such manner as the Directors or, if the Issuer is in a winding-up or administration, its liquidator or administrator may determine;

“London Stock Exchange” means the London Stock Exchange plc;

“Make Whole Redemption Price” means, in respect of each Capital Security, (a) the principal amount of such Capital Security or, if this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on a Capital Security on the Reference Date (assuming for this purpose that the Capital Securities are to be redeemed at their principal amount on the First Reset Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 hours (London time) on the Reference Date of the Reference Bond plus 0.665 per cent., all as determined by the Determination Agent. For the purposes of the definition of Make Whole Redemption Price:

“Determination Agent” means Citibank, N.A. or any successor thereto;

“Gross Redemption Yield” means, with respect to a security, the gross redemption yield on such security (as calculated by the Determination Agent on the basis set out in the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published on 8 June 1998 and updated on 15 January

2002 and as further updated or amended) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places));

“**Reference Bond**” means the 4.00 per cent. Treasury Stock due 2016, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the First Reset Date as the Determination Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 4.00 per cent. Treasury Stock due 2016;

“**Reference Date**” means the date which is three Business Days prior to the date fixed for redemption pursuant to Conditions 7(d) or 8(d) (whichever is applicable) by the Issuer;

“**Reference Market Makers**” means three brokers or market makers of gilts selected by the Determination Agent and approved for this purpose by the Trustee or such other three persons operating in the gilt-edged market as are selected by the Determination Agent in consultation with the Issuer and approved for this purpose by the Trustee;

“**Margin**” means 1.93 per cent. per annum;

“**Market**” means the London Stock Exchange’s Gilt-Edged and Fixed Interest Market;

“**Market Disruption Event**” means, with respect to any class of Payment Eligible Securities, (i) the occurrence or existence of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the London Stock Exchange or otherwise) or on settlement procedures for transactions in such class of Payment Eligible Securities if, in any such case, the Calculation Agent has confirmed to the Issuer that the suspension or limitation is material in the context of the sale of such Payment Eligible Securities, or (ii) in the reasonable opinion of the Issuer circumstances (which circumstances for these purposes may not solely be the pricing terms or interest rate of the relevant Payment Eligible Securities or the dilutive impact of the issue of the relevant Payment Eligible Securities) are such so as to prevent or to a material extent restrict the issue, allotment, sale, delivery or listing of such Payment Eligible Securities, as the case may be, including the Issuer entering a close period (within the meaning of the FSA Handbook: Listing Rules);

“**New Holding Company**” means an Eligible Company that becomes the Ultimate Owner following a Permitted Restructuring;

“**Notional Preference Shares**” means an actual or notional class of preference shares in the capital of the Issuer having an equal right to return of assets in the winding up or administration to, and so ranking *pari passu* with, the most senior class or classes of issued preference shares with non-cumulative dividends (if any) in the capital of the Issuer from time to time and which have a preferential right to a return of assets in the winding-up or administration over, and so rank ahead of the holders of all other classes of issued shares for the time being in the capital of the Issuer but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in the capital of the Issuer by reference to which the amount payable in respect of any Upper Tier 2 Securities in a winding-up or administration of the Issuer is determined;

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

“**Optional Deferred Interest Settlement Date**” has the meaning provided in Condition 5;

“**Ordinary Shares**” means ordinary shares in the capital of the Issuer, having on the Issue Date a par value of 2.5 pence each;

“**Ordinary Shares Threshold**” means, in connection with any Deferred Interest Payment, the aggregate number of Ordinary Shares issued and/or sold by the Issuer in any 12-month period shall not exceed 2 per cent. of the aggregate number of the Ordinary Shares in issue (including those held in issue and held in treasury);

“**Outstanding**”, in relation to any Interest Payment or Deferred Interest Payment, means that such payment (a) has either become due and payable or would have become due and payable except for the non-satisfaction

on the relevant date of the condition to payment set out in Condition 3(a) or the deferral, postponement or suspension of such payment in accordance with any of Condition 5, 6(d), 6(e) or 8(d); and (b) in any such case has not been satisfied and, in relation to any Accrued Interest Payment, means any amount thereof which has not been satisfied whether or not payment has become due;

“**Parity Securities**” means the most senior ranking class or classes of preference shares in the capital of the Issuer from time to time and any other securities of the Issuer or any other member of the Group ranking or expressed to rank *pari passu* with the Capital Securities and/or such preference shares, either issued directly by the Issuer or, where issued by a member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by the Issuer which ranks or is expressed to rank *pari passu* with the Capital Securities and/or such preference shares and in each case which comply with the then current requirements of the FSA in relation to Tier 1 Capital;

“**Paying Agency Agreement**” has the meaning given to it in the preamble to these Conditions;

“**Paying Agents**” has the meaning given to it in the preamble to these Conditions;

“**Payment Eligible Securities**” has the meaning given to it in Condition 6(b);

“**Permitted Restructuring**” means the completion of (i) an offer made by or on behalf of an Eligible Company to all (or as nearly as may be practicable all) shareholders of the Issuer (or, if the Issuer is not the Ultimate Owner, the then Ultimate Owner) to acquire the whole (or as nearly as may be practicable the whole) of the issued ordinary share capital of the Issuer (or, if the Issuer is not the Ultimate Owner, the then Ultimate Owner) other than that which is already held by or on behalf of such Eligible Company or (ii) a reorganisation or restructuring whether by way of a scheme of arrangement or otherwise pursuant to which an Eligible Company acquires all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not the Ultimate Owner, the then Ultimate Owner) other than that which is already held by such Eligible Company or pursuant to which all (or as nearly as may be practicable all) of the issued ordinary share capital of the Issuer (or, if the Issuer is not the Ultimate Owner, the then Ultimate Owner) not held by the New Holding Company is cancelled;

“**Permitted Restructuring Arrangement**” means, in relation to a Permitted Restructuring, an arrangement whereby the following conditions are satisfied: (a) the execution of a trust deed supplemental to the Trust Deed and/or such other documentation as may be necessary to ensure that (i) the AISM as described in Condition 6, the Trust Deed and any Calculation Agency Agreement operates so that Eligible Securities may be exchanged for Ultimate Owner Eligible Securities issued by the New Holding Company in such a manner that ensures that upon the sale of such Ultimate Owner Eligible Securities the holder of each Capital Security then outstanding will receive, in the event of a payment to be satisfied pursuant to Condition 6, an amount not less than that which would have been receivable had such a Permitted Restructuring not taken place and (ii) the economic effect, for the Holders, of a holding of the Capital Securities prior to the Permitted Restructuring is substantially preserved; and (b) the Rating Agencies have confirmed in writing that the ratings assigned by them to the Capital Securities would not be downgraded, withdrawn or qualified by such Permitted Restructuring;

“**PIK Securities**” means further Capital Securities (or securities the substantive terms of which are the same in all material respects as those of the Capital Securities or the terms of which are the same in all material respects as those of the Capital Securities save for the pricing terms thereof (including interest rate, currency, denomination and payment dates)) which are issued pursuant to Condition 6 and which comply with the then current requirements of the FSA in relation to Tier 1 Capital;

“**PIK Securities Threshold**” means the principal amount of PIK Securities issued and/or sold by the Issuer on one or more occasions should not in aggregate exceed 15 per cent. of the aggregate principal amount of the Capital Securities issued on the Issue Date (as increased by any further Capital Securities (other than PIK Securities) issued pursuant to Condition 16);

“**pounds sterling**” or “**pence**” means the lawful currency of the United Kingdom;

“**Preference Share Substitution**” has the meaning given to it in Condition 7(j);

“Preferred Parity Securities” means (i) PIK Securities; and (ii) non-cumulative perpetual preference shares which contain terms which comply with the then current requirements of the FSA in relation to Tier 1 Capital of the Issuer and either (a) which contain a provision for mandatory deferral of periodic dividends or distributions upon a failure to satisfy one or more financial tests set forth in the terms of the Preferred Parity Securities and, if the Issuer is no longer a holding company of a regulated insurance company, in respect of which the Issuer has made Intent-Based Replacement Disclosure or (b) in respect of which the Issuer has entered into a replacement capital covenant for the benefit of one or more designated series of the Issuer’s debt securities;

“Preferred Parity Securities Threshold” means the principal amount of Preferred Parity Securities (including PIK Securities) issued and/or sold by the Issuer on one or more occasions shall not in aggregate exceed 25 per cent. of the aggregate principal amount of the Capital Securities issued on the Issue Date (as increased by any further Capital Securities (other than PIK Securities) issued pursuant to Condition 16);

“Principal Paying Agent” has the meaning given to it in the preamble to these Conditions;

“Qualifying Tier 1 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 Capital Securities (as reasonably determined by the Issuer, and provided that a certification to such effect of two Authorised Signatories shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Tier 1 Capital; (2) they shall include terms which provide for the same Interest Rate from time to time applying to the Capital Securities; (3) they shall rank *pari passu* with the Capital Securities; and (4) such securities shall preserve any existing rights under these Conditions to any Accrued Interest Payment or any other accrued interest which has not been satisfied, except that such securities need not necessarily include provisions analogous to the provisions of Condition 6; and
- (b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee;

“Qualifying Upper 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 Capital Securities (as reasonably determined by the Issuer, and provided that a certification to such effect of two Authorised Signatories shall have been delivered to the Trustee prior to the issue of the relevant securities), provided that (1) they shall contain terms which comply with the then current requirements of the FSA in relation to Upper Tier 2 Capital; (2) they shall include terms which provide for the same Interest Rate from time to time applying to the Capital Securities; (3) they shall rank senior to, or *pari passu* with, the Capital Securities; and (4) such securities shall preserve any existing rights under these Conditions to any Accrued Interest Payment or any other accrued interest which has not been satisfied, except that such securities need not include provisions analogous to the provisions of Condition 6; and
- (b) are (i) listed on the Official List and admitted to trading on the Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee, such approval not to be unreasonably withheld or delayed;

“Rating Agency” means Moody’s Investors Service Ltd (“**Moody’s**”) or Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc (“**S&P**”), or their respective successors;

“Recognised Stock Exchange” means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provision, statute or statutory instrument replacing the same from time to time;

“Reference Banks” means four major banks in the interbank market in London as selected by the Agent Bank, after consultation with the Issuer;

“**Regulatory Capital Requirements**” means any applicable minimum or notional margin of solvency or minimum capital or capital requirement specified for insurance companies, insurance holding companies or financial groups by any regulator having primary supervisory authority over such companies or groups;

“**Relevant Date**” means (i) in respect of any payment other than a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 15, and (ii) in respect of a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

“**Relevant Supervisory Authority**” means any regulator having primary supervisory authority over the Issuer or the Group from time to time;

“**Senior Creditors**” means (a) creditors of the Issuer who are unsubordinated creditors of the Issuer; (b) 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 would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or whose claims rank or are expressed to rank *pari passu* with, or junior to, the claims of Holders); and (c) creditors of the Issuer whose claims are in respect of the Issuer’s outstanding securities or obligations which constitute Tier 2 Capital (and such other securities or obligations outstanding from time to time which rank, or are expressed to rank, *pari passu* with, or senior to, any such Tier 2 Capital) but excluding other Parity Securities;

“**Subsidiary**” means each subsidiary as defined in Section 736 of the Companies Act for the time being of the Issuer;

“**subsidiary**” has the meaning given to subsidiary undertaking under section 258 of the Companies Act;

“**Substitute Obligor**” has the meaning given to it in Condition 12;

“**Substituted Preference Shares**” has the meaning given to it in Condition 7(j);

“**Substitution Confirmation**” has the meaning given to it in Condition 7(j);

“**Substitution Date**” has the meaning given to it in Condition 7(j);

“**Substitution Notice**” has the meaning given to it in Condition 7(j);

“**Suspension**” has the meaning given to it in Condition 8(d);

“**Talons**” has the meaning given to it in the preamble to these Conditions;

“**Tax Law Change**” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or authority therein or thereof having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written statements made by a tax authority regarding the anticipated tax treatment of the Capital Securities, which change or amendment becomes, or would become, effective on or after 25 April 2007;

“**Termination Date**” has the meaning given to it in Condition 5;

“**Tier 1 Capital**” and “**Tier 2 Capital**” have the respective meanings given to them from time to time by the FSA;

“**Trust Deed**” has the meaning given to it in the preamble to these Conditions;

“**Trustee**” has the meaning given to it in the preamble to these Conditions;

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

“**Ultimate Owner**” means, at any given time, the ultimate holding company of the Group at that time;

“**Ultimate Owner Eligible Securities**” means securities issued by the Ultimate Owner, the terms of which are *mutatis mutandis* substantially the same as those of Eligible Securities issuable by the Issuer;

“**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland;

“**Upper Tier 2 Capital**” has the meaning given to it by the FSA from time to time; and

“**Upper Tier 2 Securities**” means the Issuer’s outstanding debt securities which constitute Upper Tier 2 Capital (except for any such securities which are Parity Securities) and such other securities outstanding from time to time (except as aforesaid) which rank or are expressed to rank *pari passu* with such securities.

SUMMARY OF PROVISIONS RELATING TO THE CAPITAL SECURITIES WHILE IN GLOBAL FORM

Each of the Temporary Global Security and the Permanent Global Security contains provisions which apply to the Capital Securities while they are in global form, some of which modify the effect of the terms and conditions of such Capital Securities as set out in this document. The following is a summary of certain of those provisions:

1 Exchange

The Temporary Global Security is exchangeable in whole or in part for interests in the Permanent Global Security on or after a date which is expected to be 11 June 2007 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Security. The Permanent Global Security is exchangeable in whole but not in part (free of charge to the holder) for the Definitive Securities described below if the Permanent Global Security is held on behalf of a clearing system and such 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. Thereupon the holder may give notice to the Trustee and the Principal Paying Agent of its intention to exchange the Permanent Global Security for Definitive Securities on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Permanent Global Security may surrender the Permanent Global Security to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Security the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Securities (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Security and a Talon for further Coupons), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Part A of Schedule 2 to the Trust Deed (“**Definitive Securities**”).

“Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the place in which the clearing system is located.

2 Payments

No payment will be made on the Temporary Global Security unless exchange for an interest in the Permanent Global Security is improperly withheld or refused. Payments of principal, premium and interest in respect of Capital Securities represented by the Permanent Global Security will be made (subject as provided in the Conditions) against presentation for endorsement and, if no further payment falls to be made in respect of the Capital Securities, surrender of the Permanent Global Security to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Holders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Security, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Capital Securities. Condition 10(c) of the Capital Securities will apply to the Definitive Securities only.

3 Notices

So long as the Capital Securities are represented by the Permanent Global Security and the Permanent Global Security is held on behalf of a clearing system, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions. Any such notice shall be deemed to have been given to the Holders on the second day after the day on which such notice is delivered to the clearing systems as aforesaid.

4 Prescription

Claims against the Issuer in respect of principal, premium and interest on the Capital Securities while the Capital Securities are represented by the Temporary Global Security or the Permanent Global Security will

become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 21 of the Capital Securities).

5 Purchase and Cancellation

Cancellation of any Capital Security required by the relevant Conditions to be cancelled following its purchase will be effected by a reduction in the principal amount of the relevant Global Security.

6 Trustee's Powers

In considering the interests of Holders while the Permanent Global Security is held on behalf of a clearing system, 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 Permanent Global Security and may consider such interests as if such accountholders were the holder of the Permanent Global Security.

7 Meetings

The holder of the Permanent Global Security will, at a meeting of Holders be treated as being two persons for the purpose of any quorum requirement and as having one vote in respect of each £1,000 in principal amount of Capital Securities for which the Permanent Global Security may be exchanged.

8 Substitution Confirmations

For so long as all of the Capital Securities are represented by the Permanent Global Security and the Permanent Global Security is held on behalf of a clearing system, a holder of a particular principal amount of Capital Securities represented by the Permanent Global Security may receive Substituted Preference Shares in accordance with the provisions of Condition 7(j) by giving a Substitution Confirmation to a Paying Agent in accordance with the standard procedures of such clearing system. Such procedures may include the giving of a confirmation to the relevant Paying Agent by electronic means by such clearing system or any common depository for such clearing system (on the instruction of such holder) and at the same time presentation or procurement of the presentation of the Permanent Global Security to the Principal Paying Agent for notation accordingly within the time limits set forth in Condition 7(j).

USE OF PROCEEDS

The net proceeds of the issue of the Capital Securities will be used for general corporate purposes.

LEGAL AND GENERAL GROUP PLC¹

Introduction

The Issuer is the holding company of a group of companies engaged in the transaction of life insurance and pensions business, UK general (property and casualty) insurance business and the provision of investment and management services. The Issuer's principal subsidiary, Legal & General Assurance Society Limited began writing business in 1836, and the Issuer itself, the Group holding company, was incorporated in England and Wales as a public limited company in 1979. The Group is a leading insurance and financial services group based in the United Kingdom with worldwide new business APE² of £1,842m for the year ended 31 December 2006 and General Insurance premium income gross of reinsurance from continuing operations of £323m for the year ended 31 December 2006. As at 31 December 2006, UK funds under management amounted to £233bn. The Group has operating subsidiaries in the United Kingdom, the United States of America, France and the Netherlands.

The Business of the Group

The Group has three areas of activity: Life and Pensions, Investment Management and General Insurance.

Life and Pensions

The Group markets a wide variety of life assurance and pension products in the United Kingdom. It enjoys a strong presence in life assurance and pensions in the United Kingdom where its principal products include individual life policies, individual pension plans, group life insurance, permanent health insurance and annuities including bulk annuity business. The Group also conducts life assurance business in the United States of America, France and the Netherlands.

Investment Management

The Group provides investment management services to corporate pension funds, institutional investors and private individuals via unit trust, ISA and PEP products, and to the Group's UK companies.

General Insurance

The Group's general insurance business, which is located principally in the United Kingdom, primarily relates to personal lines. General insurance business is focused upon domestic property but also includes domestic mortgage indemnity and accident, sickness and unemployment insurance.

Contact Details

The Issuer's registered office is located at Temple Court, 11 Queen Victoria Street, London EC4N 4TP. The switchboard number of its registered office is +44 (0)20 7528 6200.

1 All figures on this page are derived from the audited consolidated financial statements of Legal & General Group Plc for the year ended 31 December 2006.

2 Annual Premium Equivalent (APE) is total new annual premiums plus 10 per cent. of single premiums, including ISAs and unit trusts.

Management

As at the date of this Prospectus, the Directors of the Issuer, their functions and their principal outside activities (if any) are as follows:

		<i>Principal outside activities</i>
Chairman	Sir R J Margetts CBE	Anglo American Plc (Director) Ensus Plc (Chairman)
<i>Executive Directors</i>		
Group Chief Executive	T J Breedon	The Financial Reporting Council (Director)
Group Director (Finance)	A W Palmer	Slough Estates PLC (Director)
Group Executive Director (UK)	R A Phipps	–
Group Executive Director (Wealth Management)	C R R Avery	Kelda Group Plc (Director)
Group Executive Director (Protection & Annuities)	J B Pollock	–
<i>Non-Executive Directors</i>		
Vice-Chairman	Sir D A Walker	Morgan Stanley (Senior Advisor)
	F A Heaton	Jupiter Primadona Growth Trust Plc (Director) BMT Limited (Director)
	B C Hodson OBE	Robert Wiseman Dairies plc (Director) First Milk Limited (Director) Vedior NV (Director)
	R Markham	Unilever PLC and Unilever NV (Director) Standard Chartered plc (Director)
	Dr R H Schmitz	GlaxoSmithKline Plc (Director) Rohm & Hass Co (Director) Cabot Corporation (Director) Sick AG (Director)
	H E Staunton	Standard Bank plc (Director) Ladbroke's plc (Director)
	J Strachan	Bank of England (Member of the Court of Directors) Care UK Plc (Director)

The business address of each of the above Directors is Temple Court, 11 Queen Victoria Street, London EC4N 4TP.

None of the Directors of the Issuer have any potential conflict between their duties to the Issuer and their private interests or other duties.

UNITED KINGDOM TAXATION

The following is a summary of the Issuer's understanding of the current United Kingdom law and practice relating to certain aspects of the taxation treatment of the Capital Securities as at the date of this Prospectus and may be subject to change, possibly with retroactive effect. It relates only to the position of persons who are the absolute beneficial owners of the Capital Securities and Coupons and may not apply to certain classes of Holders, such as dealers in securities. This summary deals only with the question of whether payments of interest on the Capital Securities may be made without withholding or deduction for or on account of United Kingdom income tax and does not deal with other United Kingdom tax consequences that might arise from holding Capital Securities. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

Withholding tax

1. So long as the Capital Securities continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007, payments of interest may be made without withholding or deduction for or on account of income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Under HM Revenue and Customs published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. This practice is expected to be formally enacted in the Finance Act 2007. Securities that are admitted to trading on the Gilt-Edged and Fixed Interest Market satisfy the condition of being admitted to trading on the London Stock Exchange.

If the Capital Securities cease to be listed on a recognised stock exchange, interest on the Capital Securities will generally be paid under deduction of United Kingdom income tax at the savings rate (currently 20 per cent.), subject to any direction to the contrary from the HM Revenue and Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Interest on the Capital Securities may also be paid without deduction or withholding for or on account of United Kingdom tax (even if the Capital Securities cease to be listed on a recognised stock exchange) where interest on the Capital Securities 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 Capital Securities is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest provided that the HM Revenue and Customs has not given a direction that the interest should be paid under deduction of tax in circumstances where it has reasonable grounds to believe that it is likely that the beneficial owner is not within the charge to United Kingdom corporation tax in respect of such payment of interest at the time the payment is made.

2. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person who is an individual may be required to provide certain information to the HM Revenue and Customs regarding the identity of the payee or person entitled to the interest or the amount of interest paid or received and, in certain circumstances, such information may be exchanged with tax authorities in other countries.
3. The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Capital Securities who are not resident in the United Kingdom, except where the holder in question carries on a trade, profession or vocation in the United Kingdom through a branch or agency, or in the case of a corporate holder, through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Capital Securities are attributable, in which case (subject to exemptions for

interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency or permanent establishment.

4. If interest were paid under deduction of United Kingdom income tax (e.g. if the Capital Securities cease to be listed on a recognised stock exchange), Holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
5. Holders should note that the provisions relating to additional amounts referred to in Condition 10 of “Terms and Conditions of the Capital Securities” above would not apply if the HM Revenue and Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

EU Directive

6. The EU has adopted a Directive regarding the taxation of savings income. The Directive requires each Member State to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) unless during such period they elect otherwise. A number of other non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the adoption of the Directive.

SUBSCRIPTION AND SALE

The Royal Bank of Scotland plc, HSBC Bank plc and Merrill Lynch International (together, the “Joint Lead Managers”) and Société Générale (the “Co-Lead Manager”, and together with the Joint Lead Managers, the “Managers”) have, pursuant to a Subscription Agreement dated 25 April 2007 (the “Subscription Agreement”), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Capital Securities at 100.00 per cent. of the principal amount of the Capital Securities plus accrued interest (if any) less a combined management, underwriting and selling commission. The Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Capital Securities.

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

United States

The Capital Securities 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”).

The Capital Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Capital Securities (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 Capital Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Capital Securities 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 Capital Securities, an offer or sale of Capital Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

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

General

No action has been or will be taken by the Issuer or any Manager that would permit a public offering of the Capital Securities, or the possession or distribution of this Prospectus, or any other offering material relating to the Capital Securities, in any country or jurisdiction where action for that purpose is required.

Each Manager has undertaken that it will not, directly or indirectly, offer or sell any Capital Securities or distribute the Prospectus or publish any prospectus, form of application, advertisement or other document or

information in any country or jurisdiction except in circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and neither the Issuer nor any other Manager shall have responsibility for the action of such Manager.

The Managers and their affiliates 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.

GENERAL INFORMATION

- (1) The Issuer was incorporated in England and Wales on 27 February 1979 under the Companies Acts 1948 to 1976 as a limited liability company and was re-registered as a public limited company under the Companies Acts 1948 to 1980 with the number 01417162 on 19 March 1982. The registered office of the Issuer is at Temple Court, 11 Queen Victoria Street, London EC4N 4TP which is also its principal place of business.
- (2) The listing of the Capital Securities on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that admission of the Capital Securities to the Official List and to trading on the Market will be granted on or around 2 May 2007, subject only to the issue of the Temporary Global Security. If the Temporary Global Security is not issued as mentioned in this document, the issue of the Capital Securities may be cancelled. Prior to listing, however, dealings in Capital Securities will be permitted by the London Stock Exchange in accordance with its rules. The total expenses related to the admission to trading of the Capital Securities are estimated to be £4.8m.
- (3) There has been no significant change in the financial or trading position of the Issuer or the Group and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2006.
- (4) Neither the Issuer nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) 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 accounts of the Issuer for the three years ended 31 December 2006 have been audited by PricewaterhouseCoopers LLP, Chartered Accountants (members of the Institute of Chartered Accountants in England and Wales) and Registered Auditors (authorised and regulated by the Financial Services Authority for designated investment business), in each case in accordance with Auditing Standards issued by the Auditing Practices Board, and have been reported upon without qualification.
- (6) The reports of PricewaterhouseCoopers LLP dated 13 March 2007 and 16 March 2006 in respect of the Issuer for the years ended 31 December 2006 and 31 December 2005, respectively, state that the reports, including the opinions, have been prepared for and only for the members of the company to which the report related, as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose, and that PricewaterhouseCoopers LLP did not, in giving their opinion, accept or assume responsibility for any other purpose or to any other person to whom the report is shown or into whose hands the report may come save where expressly agreed by PricewaterhouseCoopers LLP's prior consent in writing. The business address of PricewaterhouseCoopers LLP is Southwark Towers, 32 London Bridge Street, London SE1 9SY.
- (7) The Issuer intends to enter into a replacement capital covenant for the benefit of one or more designated series of the Issuer's debt securities. It is anticipated that the terms of such replacement capital covenant will provide that the Issuer will not redeem or repurchase any Capital Securities, and will not permit any subsidiary to purchase any Capital Securities, unless and to the extent the aggregate redemption, repurchase or purchase price is equal to or less than the net proceeds (or in certain circumstances a specified percentage of such net proceeds) received by the Issuer or its subsidiaries, during the six months prior to such redemption, repurchase or purchase date, from new issuances of qualifying securities and that the covenant will terminate on the redemption of the Capital Securities if not terminated earlier in accordance with its terms. The replacement capital covenant will continue to be effective following any substitution or variation of the Capital Securities in accordance with their terms.

- (8) The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Capital Securities. The issue of the Capital Securities was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 13 March 2007 and by a resolution of an executive committee of the Board of Directors of the Issuer passed on 24 April 2007.
- (9) The Capital Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. 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. The ISIN for the Capital Securities is XS0296889073 and the Common Code for the Capital Securities is 029688907.
- (10) For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the latest annual report and consolidated accounts of the Issuer, the latest interim consolidated accounts of the Issuer and the documents referred to in “Incorporation by Reference” above may be obtained free of charge, and copies of the Memorandum and Articles of Association of the Issuer, the Subscription Agreement, the Trust Deed, the Calculation Agency Agreement (if any) and Paying Agency Agreement will be available for inspection, at the specified office of each of the Paying Agents during normal business hours, so long as any of the Capital Securities are outstanding. The Issuer publishes unaudited interim consolidated accounts on a semi-annual basis. In addition, this Prospectus is also available at the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com.
- (11) The Capital Securities, Coupons and Talons will bear the following legend: *“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”*.
- (12) The Trust Deed provides that the Trustee may rely on certificates or reports from the auditors of the Issuer or any other expert in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and such auditors or such expert in connection therewith contains any limit on liability (monetary or otherwise) of such auditors or such expert.

REGISTERED OFFICE OF THE ISSUER

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