PROSPECTUS DATED 27 NOVEMBER 2013

RL Finance Bonds No. 2 plc

(incorporated with limited liability in England and Wales with registered number 8764613)

£400,000,000 6.125 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043

guaranteed by

The Royal London Mutual Insurance Society Limited

(incorporated with liability limited by guarantee in England and Wales with registered number 99064)

Issue Price: 99.316 per cent.

The £400,000,000 6.125 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 guaranteed by The Royal London Mutual Insurance Society Limited (the "**Guarantor**" and, together with its consolidated subsidiaries, the "**Group**") on a subordinated basis (the "**Notes**") will be issued by RL Finance Bonds No. 2 plc (the "**Issuer**") on or about 29 November 2013 (the "**Issue Date**"). The Notes will bear interest from (and including) the Issue Date to (but excluding) 30 November 2023 (the "**First Call Date**") at a fixed rate of 6.125 per cent. per annum and thereafter at a fixed rate of interest which will be reset on the First Call Date and on each fifth anniversary of the First Call Date. Interest will be payable on the Notes annually in arrear on 30 November in each year (each, an "**Interest Payment Date**"), commencing on 30 November 2014, provided that either the Issuer or the Guarantor may defer payments of interest on any Interest Payment Date for any reason, and interest will be mandatorily deferred (i) on any Regulatory Deficiency Interest Deferral Date (as defined in the Conditions) and/or (ii) if such payment could not be made in compliance with the Solvency Condition (as defined in the Conditions). Any interest which is deferred will, for so long as it remains unpaid, constitute "**Arrears of Interest**". Arrears of Interest will not themselves bear interest, and will be payable as provided in Condition 6.

Subject to the following proviso, the Notes will (unless previously redeemed or purchased and cancelled) mature on 30 November 2043 (the "**Maturity Date**"), and may be redeemed at the option of the Issuer on any Interest Payment Date falling on or after the First Call Date, or at any time (i) following the occurrence of a Capital Disqualification Event (as defined in the Conditions) or the occurrence of (or if the Issuer satisfies the Trustee (as defined in the Conditions) that there will occur within six months) a Ratings Methodology Event (as defined in the Conditions) (provided that, in the case of a Ratings Methodology Event, the Notes will not be redeemed prior to the later of (a) the occurrence of the Ratings Methodology Event (or the Trustee being satisfied as aforementioned) and (b) the fifth anniversary of the Issue Date) or (ii) in the event of certain changes in the tax treatment applicable to the Notes, provided that redemption of the Notes on the Maturity Date or any other date set for redemption of the Notes shall be deferred if (a) a Regulatory Deficiency Redemption Deferral Event (as defined in the Conditions) has occurred and is continuing on such date, or would occur if the Notes were to be redeemed, or (b) the Notes could not be redeemed in compliance with the Solvency Condition.

The Issuer may, alternatively, following the occurrence of a Capital Disqualification Event or the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Ratings Methodology Event or in the event of certain changes in the tax treatment applicable to the Notes, vary or substitute the Notes in the circumstances described in Condition 8. Any substitution or variation of the Notes, and any redemption or purchase of the Notes prior to the Maturity Date, will be subject to satisfaction of the Regulatory Clearance Condition (as defined in the Conditions) and continued compliance with applicable Regulatory Capital Requirements (as defined in the Conditions) as published by the Prudential Regulation Authority (or any successor authority, the "**PRA**"), all as more particularly described in Condition 8(*h*).

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

Potential investors should read the whole of this Prospectus, in particular the "Risk Factors" set out on pages 9 to 46.

The Notes will be issued in registered form in the denomination of £100,000 and integral multiples of £1,000 in excess thereof. The Notes will be represented by a global certificate in registered form (the "**Global Certificate**") registered in the name of a nominee for HSBC Bank plc as common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about the Issue Date. Individual certificates ("**Certificates**") evidencing holdings of Notes will be available only in certain limited circumstances described under "*Summary of Provisions relating to the Notes whilst in Global Form*".

The Notes have been rated BBB+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), and Baa1 by Moody's Investors Service Limited ("**Moody's**"). S&P and Moody's are each credit rating agencies established in the European Union and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") and each of them is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Lead Managers

Barclays **BofA Merrill Lynch** **HSBC**

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

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

Save for the Issuer and the Guarantor, no other party has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers (as described under "*Subscription and Sale*" below) or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the offering of the Notes. None of the Joint Lead Managers nor the Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the offering of the Notes or their distribution.

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

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantor, any of the Joint Lead Managers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor, any of the Joint Lead Managers or the Trustee to any person to subscribe for or to purchase any Notes in any jurisdiction where such offer or invitation is not permitted by law.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

Neither the Notes nor the guarantee in respect thereof (the "**Guarantee**") have been nor will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, the Notes and the Guarantee may not be offered, sold or delivered within the United States. For a further description of certain restrictions on the offering and sale of the Notes and the Guarantee and on distribution of this Prospectus, see "*Subscription and Sale*" below.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor should (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any

applicable supplement; (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency; (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantor, the Joint Lead Managers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor, the Joint Lead Managers or the Trustee which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the United Kingdom, see "*Subscription and Sale*".

IN CONNECTION WITH THE ISSUE OF THE NOTES, BARCLAYS BANK PLC AS STABILISING MANAGER (THE "**STABILISING MANAGER**") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this Prospectus to "**sterling**" and "**£**" refer to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland and references to "**euro**" refer to the currency

introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

FORWARD-LOOKING STATEMENTS

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

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with:

(i) the audited consolidated financial statements of the Guarantor for the financial years ended 31 December 2011 and 2012 prepared in accordance with the IFRS as adopted by the European Union, together with the audit reports thereon; and

(ii) the unaudited consolidated interim financial information of the Guarantor for the six months ended 30 June 2013,

each of which have been previously published and which have been filed with the FCA (or its predecessor, the Financial Services Authority).

Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

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

In accordance with IFRS as adopted by the European Union, the financial statements of the Guarantor include the results of acquired businesses from the date of acquisition only and include the results of disposed businesses up to the date of disposal only. On 31 July 2013, the Guarantor acquired the entire share capital of Royal London (CIS) Limited (previously known as the Co-operative Insurance Society Limited) ("**RLCIS**") and Royal London Asset Management (CIS) Limited (previously known as The Co-operative Asset Management Limited) ("**RLAM (CIS)**") from The Co-operative Banking Group Limited ("**CBG**"). Accordingly, the Guarantor's audited consolidated financial statements for the year ended 31 December 2012 and unaudited consolidated interim financial statements for the six months ended 30 June 2013 do not reflect that acquisition.

Since the date of its incorporation, the Issuer has not undertaken any operations, save in connection with the issue of the Notes, and no financial statements have been prepared.

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OVERVIEW OF THE PRINCIPAL FEATURES OF THE NOTES

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

Issuer	RL Finance Bonds No. 2 plc.
Guarantor	The Royal London Mutual Insurance Society Limited, a company limited by guarantee.
Joint Bookrunners and Joint Lead Managers	Barclays Bank PLC, HSBC Bank plc and Merrill Lynch International.
Trustee	HSBC Corporate Trustee Company (UK) Ltd.
Principal Paying Agent, Registrar and Transfer Agent	HSBC Bank plc.
Issue	£400,000,000 6.125 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043.
Issue Date	29 November 2013.
Risk Factors	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes and the Guarantor's ability to fulfil its obligations under the Guarantee. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and certain risks relating to the structure of the Notes. These are set out under "*Risk Factors*".
Status	The Notes will constitute direct and unsecured obligations of the Issuer and will rank *pari passu* and without any preference among themselves. If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders may claim or prove in such Issuer Winding-Up. If and to the extent that the amount that the Trustee or the Noteholders could recover in such Issuer Winding-Up (including any damages awarded for breach of any obligations thereunder) would exceed the amount per Note that would have been paid in respect of such Note in such Guarantor Winding-Up (had the Note been a subordinated obligation of the Guarantor for an amount equal to the relevant Guaranteed Amounts and ranking *pari passu* with the Guarantee) then the Trustee and the Noteholders shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such amounts and the right thereto to the Guarantor. If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring, the Trustee

(other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders (in each case in relation to any amount which they are entitled to receive in such Issuer Winding-Up in respect of, or arising under, the Notes and the Trust Deed (including any damages awarded for breach of any obligations thereunder)) shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such amounts and the right thereto to the Guarantor as consideration for the Guarantor's agreement to assume, or procure the assumption by a Subsidiary of the Guarantor of, the obligations of the Issuer pursuant to, and in accordance with, Condition 4(*c*) and irrevocably to have authorised and directed the Issuer (or its liquidator or administrator, as appropriate) to make the payment of any such amounts directly to the Guarantor.

Guarantee and Subordination

The Notes will be irrevocably guaranteed on a subordinated basis by the Guarantor. The rights and claims of Noteholders against the Guarantor are subordinated in a winding-up of the Guarantor as described in Condition 4(*b*).

In addition, other than in circumstances where a Guarantor Winding-Up has occurred or is occurring, all payments under or arising under the Notes or Trust Deed shall be conditional upon the Guarantor being solvent (as that term is described in Condition 3(*c*)) at the time for payment by the Issuer, or as appropriate, the Guarantor, and no amount shall be payable under or arising from the Notes or the Trust Deed (including, without limitation, the Guarantee) unless and until such time as the Guarantor could make such payment and still be solvent immediately thereafter.

Interest

The Notes will bear interest from (and including) the Issue Date to (but excluding) the First Call Date at a fixed rate of 6.125 per cent. per annum payable (subject as provided under "*Deferral of interest*" below) annually in arrear on 30 November in each year up to (and including) the First Call Date and thereafter at the applicable Reset Rate as reset from (and including) the First Call Date and on each fifth anniversary of the First Call Date, payable (subject as provided under "*Deferral of interest*" below) annually in arrear on 30 November in each year.

"**Reset Rate**" means the 5 Year Gilt Rate (calculated in accordance with the Conditions) plus 4.321 per cent.

Deferral of interest

Either the Issuer or the Guarantor may, on any Interest Payment Date, elect to defer payments of interest on the Notes for any reason.

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

Arrears of Interest	Any interest which is deferred by the Issuer or the Guarantor will, for so long as it remains unpaid, constitute Arrears of Interest. Arrears of Interest will not themselves bear interest, and will be payable by the Issuer as provided in Condition 6(*e*).
Redemption at maturity	Unless previously redeemed or purchased and cancelled, the Issuer will (subject as provided under "*Deferral of redemption*" below) redeem the Notes on 30 November 2043.
Early Redemption	The Issuer may, subject as provided under "*Deferral of redemption*" below, upon giving not less than 15 nor more than 30 days' notice to Noteholders, redeem all (but not some only) of the Notes on the First Call Date or any Interest Payment Date thereafter at their principal amount together with any Arrears of Interest and any other accrued but unpaid interest to (but excluding) the date of redemption. The Notes are not redeemable at the option of any Noteholder.
Redemption, substitution or variation upon a relevant tax law change	If: (a) as a result of certain changes in (or proposed changes in), or amendments to (or proposed amendments to), laws or regulations of a Relevant Jurisdiction or the application or official or generally published interpretation thereof, on the next Interest Payment Date, either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 10; or (ii) the Guarantor in making payment of Guaranteed Amounts would be required to pay such additional amounts; or (iii) the payment of interest (or any Guaranteed Amounts in respect of interest) would be treated as a "distribution" for United Kingdom corporation tax purposes or the Issuer or the Guarantor would otherwise not be able to claim a deduction from taxable profits for United Kingdom corporation tax purposes for interest (or any Guaranteed Amounts in respect of interest) payable on the Notes or for a material part of such interest (or Guaranteed Amounts in respect of interest); or (iv) where (A) in respect of the payment of interest (or any Guaranteed Amounts in respect of interest), the Issuer or the Guarantor, as the case may be, incurs a loss or a non-trading loan relationship deficit for United Kingdom corporation tax purposes in respect of such interest or Guaranteed Amounts in relation to an accounting period; and (B) other companies with which the Issuer or the Guarantor (as the case may be) is grouped for applicable United Kingdom tax purposes have profits chargeable to United Kingdom corporation tax in respect of that accounting period but such loss or deficit is not capable of being surrendered to offset such profits chargeable to United Kingdom corporation tax of such other companies for United Kingdom corporation tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist); and

(b) the effect of the foregoing cannot be avoided by the Issuer or, as the case may be, the Guarantor by taking reasonable measures available to it,

the Issuer may, in accordance with Condition 8(*e*), upon notice to, *inter alios*, the Noteholders either:

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

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

all as more particularly described in Condition 8(*e*).

Redemption, Substitution or Variation upon a Capital Disqualification Event or a Ratings Methodology Event

If a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing, or (in the case of a Ratings Methodology Event) the Issuer or the Guarantor satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official interpretation of, any applicable ratings methodology, a Ratings Methodology Event will occur within a period of six months, the Issuer may upon notice to Noteholders either:

(a) redeem all (but not some only) of the Notes at any time (in the case of a Capital Disqualification Event) or at any time after the later of (a) the occurrence of the Ratings Methodology Event (or the Trustee being satisfied as aforementioned) and (b) the fifth anniversary of the Issue Date (in the case of a Ratings Methodology Event) at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption (subject as provided under "*Deferral of redemption*" below); or

(b) substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Dated Tier 2 Securities (in the case of a Capital Disqualification Event) or Rating Agency Compliant Securities (in the case of a Ratings Methodology Event),

all as more particularly described in Condition 8(*f*).

Deferral of redemption

No Notes shall be redeemed by the Issuer on the Maturity Date or on any other date set for redemption pursuant to Conditions 8(*d*), 8(*e*) or 8(*f*) and no Guaranteed Amounts in respect of principal shall be become due if (i) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were to be redeemed or (ii) such redemption could not be made in compliance with the Solvency Condition.

If redemption of the Notes is deferred, the Issuer will only redeem the Notes as provided in Condition 8(*b*).

See "*Restrictions following Deferral of Interest or Principal*" below.

Regulatory approval for redemption, variation, substitution or purchase

Prior to publishing any notice (a) that the Issuer intends to redeem the Notes before the Maturity Date or (b) of any proposed substitution, variation or purchase of the Notes, the Issuer, or as the case may be, the Guarantor will be required to have complied with the Regulatory Clearance Condition with respect to such redemption, variation, substitution or purchase and (in the case of any redemption or purchase) be in continued compliance with Regulatory Capital Requirements as published by the PRA.

As at the date of this Prospectus, any redemption or purchase of the Notes by the Issuer or the Guarantor within five years of the Issue Date must be approved by the PRA and only made on condition that the Notes are replaced with capital of the same or higher quality, as more particularly described in Condition 8(*h*).

Withholding tax and additional amounts

The Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding or deduction for, or on account of, any taxes required by law in the Relevant Jurisdiction upon payments made by or on behalf of the Issuer in respect of the Notes or by or on behalf of the Guarantor under the Guarantee, will equal the amount which would have been received in the absence of any such withholding or deduction, subject to customary exceptions as set out in Condition 10.

Restrictions following Deferral of Interest or Principal

During any period starting from when notice is given (or, if earlier, the date on which the Issuer or Guarantor becomes obliged to give such notice) to defer any payments in respect of interest or principal under the Notes and ending on the date on which the obligation to make payment of all such deferred interest or principal is satisfied in full (including any Arrears of Interest): (i) none of the Guarantor, the Board of Directors of the Guarantor nor any committee thereof shall resolve on or publicly declare any distribution to members, which distribution falls within the Mutual Dividend Arrangements and which would be paid or allocated during such period; and (ii) subject to certain limited exceptions, neither the Issuer nor Guarantor shall (and shall procure no Subsidiary of the Issuer or Guarantor shall) purchase, redeem, cancel, reduce or otherwise acquire (directly or indirectly) any Notes or any Subordinated Obligations, save where (a) the Issuer, the Guarantor or the relevant Subsidiary is not able to avoid such obligation to purchase, redeem, cancel, reduce or otherwise acquire such Notes or the relevant Subordinated Obligations in accordance with their respective terms or (b) the Issuer, the Guarantor or the relevant Subsidiary does so pursuant to a public cash tender offer or public offer to exchange such Notes or Subordinated Obligations, provided that (in the case of a cash tender offer) the cash amount or (in the case of an offer to exchange) the market value of the exchange consideration and any cash amount payable does not (in either case) exceed an amount equal to the principal amount of the Notes or the Subordinated Obligations (as the case may

be) so tendered or exchanged (together with any Arrears of Interest and any accrued but unpaid interest on the Notes or any accrued but unpaid interest on such Subordinated Obligations, as the case may be).

Events of Default

Guarantor not in Guarantor Winding-Up

If (1) neither an Issuer Winding-Up nor a Guarantor Winding-Up has occurred or (2) an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring and, in either case, the Issuer is in default in the payment of any interest or of any principal due in respect of the Notes or any of them, then the Trustee and the Noteholders may, in accordance with the terms of the Guarantee claim under the Guarantee for such payments due but may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed.

Guarantor in Guarantor Winding-Up and Issuer in Issuer Winding-Up

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee and the Noteholders may claim under the Guarantee for the Guaranteed Amounts and the Trustee at its discretion may (and, subject to certain conditions, if so directed by the requisite majority of Noteholders shall, having been indemnified and/or secured and/or pre-funded to its satisfaction): (x) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at an amount equal to their principal amount together with any Arrears of Interest and any other accrued and unpaid interest; and (y) prove in the relevant winding-up or administration of the Issuer and/or the Guarantor (whether in England and Wales or elsewhere) and/or claim in the liquidation of the Issuer and/or the Guarantor (whether in England and Wales or elsewhere), but may take no further or other action to enforce, prove or claim for any payment by the Issuer or the Guarantor in respect of the Notes or the Trust Deed (including, without limitation, the Guarantee).

Guarantor non-payment or Guarantor Winding-Up

If (A) default is made by the Guarantor for a period of 14 days or more in the payment of any amount due under the Guarantee or (B) the Guarantor is in a Guarantor Winding-Up (where the Issuer is not in an Issuer Winding-Up), the Trustee at its discretion may (and, subject to certain conditions, if so directed by the requisite majority of Noteholders shall, having been indemnified and/or secured and/or pre-funded to its satisfaction): (x) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at an amount equal to their principal amount together with any Arrears of Interest and any other accrued and unpaid interest; and (y) in the case of (A), institute proceedings for the winding-up of the Guarantor in England and Wales (but not elsewhere) or, in the case of (A) or (B), prove in the winding-up or administration of the Guarantor (whether in England and Wales or elsewhere) and/or claim in the liquidation of the Guarantor (whether in England and Wales or elsewhere), but in either case may take no further or other action to

enforce, prove or claim for any payment by the Issuer or the Guarantor in respect of the Notes or the Trust Deed (including, without limitation, the Guarantee).

The right to institute and/or prove in winding-up proceedings in respect of the Issuer is limited to those circumstances where a Guarantor Winding-Up has also occurred or is occurring.

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not also occurring, the Guarantor shall (as more particularly described in the Trust Deed) assume, or shall procure the assumption by a Subsidiary of the Guarantor of, all of the obligations of the Issuer under the Notes and the Trust Deed as if references in the Notes and the Trust Deed to "the Issuer" were to the Guarantor or the relevant Subsidiary (as the case may be) but provided that the claims of the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders against the Guarantor in respect of all payment obligations under the Notes and the Trust Deed shall rank pari passu with the Guarantee.

The right to institute winding-up proceedings in respect of the Guarantor is limited to circumstances where a payment under the Guarantee has become due and has not been paid by the Guarantor. For the avoidance of doubt, unless a Guarantor Winding-Up has occurred, no amount shall be due from the Guarantor in those circumstances where payment of such amount could not be made in compliance with the Solvency Condition or is deferred in accordance with Condition 6(a), 6(b) or 8(b).

Substitution of obligor and transfer of business

The Conditions permit the Trustee to agree to the substitution in place of the Issuer or the Guarantor of a Substituted Obligor in the circumstances described in Condition 15 without the consent of Noteholders.

In addition, the Guarantor may, without any prior approval from the Noteholders or the Trustee, transfer a substantial part (being any part which represents 50 per cent. or more of the liabilities (where the amount of the liabilities of the Guarantor is deemed to mean the same as the technical provisions of the Guarantor, net of reinsurance) relating to policies underwritten by the Guarantor) of its business in the circumstances provided in Condition 17, provided that all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee are transferred to the relevant transferee.

Meetings of Noteholders

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

Form

The Notes will be issued in registered form only and will be represented upon issue by a registered global certificate (the "**Global Certificate**") which will be registered in the name of a nominee for a common

	depositary for Clearstream Luxembourg, *société anonyme* and Euroclear Bank SA/NV on or about 29 November 2013. Save in limited circumstances, Notes in definitive form will not be issued in exchange for interests in the Global Certificate.
Denomination	The denomination of the Notes shall be £100,000 and higher integral multiples of £1,000.
Listing	Application has been made to the FCA under Part VI of the FSMA for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market.
Ratings	The Notes have been rated BBB+ by S&P and Baa1 by Moody's. S&P and Moody's are each credit rating agencies established in the European Union and registered under Regulation (EC) No 1060/2009 and each of them is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Governing law	The Notes and the Trust Deed (including the Guarantee), and any non-contractual obligations arising out of or in connection with the Notes or the Trust Deed (including the Guarantee), will be governed by, and construed in accordance with, English law.
Selling Restrictions	United States and United Kingdom.
Use of Proceeds	It is intended that the net proceeds of the issuance of the Notes will be on-lent by the Issuer to the Guarantor on a subordinated basis. The Guarantor intends to use the on-loan to fund the purchase of some or all of the £400,000,000 6.125 per cent. Perpetual Cumulative Step-Up Subordinated Guaranteed Notes issued by RL Finance Bonds plc on 14 December 2005 and, to the extent any proceeds remain, for general corporate purposes.
Clearing Systems	Clearstream Banking, *société anonyme* and Euroclear Bank SA/NV.
ISIN	XS0998135718
Common Code	099813571

RISK FACTORS

Investing in the Notes involves certain risks. The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Notes and/or the Guarantee. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring. Any of these risk factors, individually or in the aggregate, could have an adverse effect on the Group and the impact each risk could have on the Group is set out below.

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

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

(A) RISKS RELATING TO THE GROUP

BUSINESS AND ECONOMIC RISKS

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

1.1 A further deterioration in the global financial markets and in UK and global economic and market conditions could have a material adverse impact on the Group's operations and its financial position.

Like other insurance groups, the Group's business is subject to inherent risks arising from general and sector-specific economic conditions in the markets in which it operates, particularly in the UK, where the Group's earnings are predominantly generated. Current volatility in the global capital markets, the UK and the global economy generally may have a material adverse effect on the Group due to its exposure to asset prices and the markets in which the Group operates.

The current economic climate in Western economies following the global financial crisis and subsequent sovereign debt crisis is characterised by a larger number of economic risks than one would expect in a normal cycle leading to higher volatility in pricing in asset markets as a result. Governments and central banks are working to engineer a recovery through their policy actions. Both investment and economic risks will be heightened by the interaction of fiscal and monetary policy, risking, at best, a further moderation in economic growth and, at worst, a return to recessionary conditions. In the shorter term, a globally loose monetary policy has created inflationary impulses and excess liquidity that is leading to inflated asset prices in a number of markets. One of the other important side effects of this policy environment has been a rise in fixed income asset price volatility and, in a number of sovereign and credit markets,

heightened, and in some cases extreme, credit risk being priced in. Domestic and international equity markets have also experienced volatility and disruption. Such events and the continuing market upheavals may have an adverse effect on the Group, in part because the Group has a large investment portfolio and is dependent upon consumer behaviour. In addition, the Group may experience a decline in the value of any assets which are exposed to European sovereign debt. In addition, in the event of extreme prolonged adverse market conditions, such as the recent global credit crisis, the Group could incur significant losses in its investment portfolio.

As a provider of long-term financial services, the Group is dependent on consumer demand for the sale and retention of its products and services. If there is further deterioration in the UK economy, including but not limited to decreasing consumer confidence, rising unemployment, volatile equity markets, inflation rising in excess of earnings and availability and cost of credit, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products could be adversely affected which could lead to a decline in sales. Further to this, the Group may experience an increased incidence of claims or surrenders of policies that could affect the current and future profitability of the business. The Group's policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. In addition, in the event of extreme prolonged adverse market conditions, the Group could incur significant losses in its large investment portfolio which could result in a reduction in the value of assets held by the Group to meet policyholder liabilities, and in the value of assets the Group holds for its own account. These adverse changes in the global economy could affect earnings negatively and could have a material adverse effect on the Group's business, results of operations and financial condition.

1.2 The Group has some exposure to the Eurozone and is exposed to business and economic threats from the potential break-up of the Eurozone, including contagion impacts on the UK economy which could impact its capital position.

Recent developments surrounding the large debt to gross domestic product ratios and/or fiscal deficits of several countries in Europe (primarily Cyprus, Greece, Ireland, Portugal, Italy and Spain) have led to fears of one or more Eurozone member states departing from the European Monetary Union and/or the imposition of widespread capital and exchange controls.

The Group operates a small protection business in the Republic of Ireland through its Caledonian Life division and also has a closed book of policies written in the Republic of Ireland in the Royal Liver closed sub-fund. The Group's investment portfolio therefore has some exposure to the Eurozone and therefore to business and economic threats from the potential break-up of the Eurozone, including contagion impacts on the UK economy. A wide-scale break-up of the Eurozone would most likely be associated with a significant deterioration in the economic and financial environment in the UK and the Eurozone that would materially affect the capital and the funding position of participants in the insurance industry, including the Group and its counterparties and service providers (such as custodians and brokers). This could also give rise to operational disruption to the Group's business.

The effects on the European and global economy and the Group of the potential break-up of the Eurozone, the exit of one or more European Union member states from the Eurozone or the redenomination of financial instruments from the euro to a different currency, are impossible to predict and protect against fully in view of (i) economic and financial instability in the Eurozone, (ii) the severity of the recent global financial crisis, (iii) difficulties in predicting whether any recovery will be sustained and at what rate, (iv) the uncertain legal position and (v) the fact that many of the risks related to the business are totally, or in part, outside the control of

the Group. However, if any such events were to occur they would likely: (a) result in significant market disruption; (b) heighten counterparty risk; (c) adversely affect the management of market risk and, in particular, asset and liability management due, in part, to redenomination of financial assets and liabilities; or (d) have a material adverse effect on the financial condition, results of operations and prospects of the Group. Even if countries do not leave the Eurozone, the current recessionary environment in such countries may have an adverse effect on the Group's business carried out in, or with counterparties based in, such countries. Any adverse changes affecting the economies of the countries in which the Group has exposures, and any further deterioration in global economic conditions including any contagion impacts on the UK economy and disruptions to the financial system could have a material adverse impact on the Group's operating results, financial condition and prospects.

1.3 The Group has substantial exposure to fixed income securities, equity securities and property.

The value of investment assets fluctuates, which can impact the capital levels supporting the Group's business. A downturn in the equity, fixed income and/or other investment markets will depress the value of the Group's investments and have a negative impact on the Group's capital position. The Group has substantial exposure to fixed income securities, equity securities and property returns via its constituent life insurance portfolios, and therefore is exposed to investment market volatility and decreases in asset values. Whilst the investment risk is often borne by or shared with policyholders, fluctuations in the fixed income and equity markets will directly or indirectly affect the reported financial results and the capital requirements of the Group's life insurance business.

Within the asset management business, income is primarily defined as an *ad valorem* charge on the value of assets under management. If the value of assets is adversely affected by general movements in the market or by performance within the funds, this may lead to reduced operating profit for the Group. Falls in property prices could have an adverse impact on the Group's investment portfolio and impact the results of operations of the Group. The Group is subject to property price risk mainly due to holdings of investment properties in various funds. As of 30 June 2013 property assets amounted to £2.6 billion, which accounts for 5.3 per cent. of RLAM's assets. In addition, the Group offers certain long-term insurance products with guarantees. In volatile or declining investment markets it may be necessary to increase provisions against liabilities in respect of future policyholder benefits, negatively impacting profitability.

The Group looks to mitigate this risk through investment diversification and other risk management techniques such as derivatives and asset and liability matching, however, such measures will not mitigate the risk entirely. Increased volatility and/or a substantial decline in the value of financial markets could result in a substantial loss in the value of the investments of the Group which could have an adverse impact on the capital position of the Group and its profitability.

1.4 Fluctuations in financial markets, including fixed income, equity, property and credit could affect the levels of regulatory capital the Group must hold for solvency purposes, which could materially affect its results of operations, financial condition and liquidity.

The value of investment assets fluctuates, which can impact the capital levels supporting the Group's business. All insurers are required to hold an excess amount of capital over a minimum solvency amount. The Group had a PRA Pillar I regulatory capital surplus of £1.9 billion as at

31 December 2011, £2.4 billion as at 31 December 2012 and £2.5 billion as at 30 June 2013. The Group's policy is to also maintain an appropriate buffer over other measures of regulatory capital requirements at all times. The Group is subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies, including the PRA and the FCA (being the successors to the FSA from April 2013 in relation to the conduct supervision of insurers in the UK). An inability to meet regulatory capital requirements in the future would be likely to lead to intervention by the PRA which could require the Group to restore regulatory capital to acceptable levels.

In light of the recent financial crisis, some of these authorities are considering, or may in the future consider, enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. All of these possibilities, if they occurred, could affect the way the Group conducts business and manages capital, and may require the Group to satisfy increased capital requirements, any of which in turn could materially affect the Group's results of operations, financial condition and liquidity.

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

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

CREDIT, MARKET AND LIQUIDITY RISKS

2 The Group is exposed to a number of credit, market and liquidity related risks, including the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion; the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates; the risk that a firm, 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.

2.1 Interest rate and credit spread volatility could adversely affect the Group by reducing the returns on fixed interest investments and reducing the market values of fixed interest securities.

Interest rates and credit spreads are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, inflationary factors, fiscal deficits, trade surpluses or deficits, regulatory requirements, performance of a specific counterparty and other factors beyond the control of the Group.

In particular, insurance businesses can be adversely affected by sustained low interest rates as well as certain interest rate fluctuations. Like other life assurance businesses, the Group invests in a variety of investments which include interest rate sensitive instruments such as fixed income securities. A rise in interest rates would increase unrealised losses or reduce unrealised gains in the investment portfolio, whilst improving the Group's ability to earn higher rates of return on funds reinvested. In times of low interest rates bond yields typically decrease which can lead to lower investment returns. In addition, guarantees included in certain insurance products may become more expensive during periods of low interest rates (such as those guaranteeing a particular minimum level of investment return). Sustained low interest rates or interest rate fluctuations could therefore have a material adverse effect on the business, results of operations and financial condition of the Group.

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

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

Credit spreads, along with defaults and the migrations of investments from one credit rating to another, have a direct impact on the value of certain assets of the Group, principally debt securities, whereby a widening credit spread will result in a decrease in the value of the relevant assets of the Group. Profits from fees taken on unit-linked funds and other third party assets invested in corporate bonds would fall when spreads widen, and the options and guarantees

embedded in the With-Profits Business could become more onerous and hence may require support. Other areas where widening credit spreads could impact the Group's profitability are the valuation and matching of long-term liabilities. The Group is also exposed to a widening of credit spreads in its guaranteed with-profits policies where there may be an increase in the cost of the guarantees due to the underlying fall in asset values.

As a result of the diversity of the products offered by the Group, the Group employs different methods of asset and liability management. It may not be possible to hold assets which will provide cash flows to match exactly those relating to policyholder liabilities. Market volatility can make it difficult to value certain securities if trading becomes less frequent. Accordingly, valuations of investments may include assumptions or estimates that may have significant period-to-period changes due to market conditions. This results in a residual asset/liability mismatch risk which can be managed but not eliminated. In addition, the estimate of the liability cash flow profile is subject to uncertainty and the Group may be forced to liquidate investments prior to maturity at a loss in order to cover the liability, which could have a material adverse effect on the business, results of operations and financial condition of the Group.

Furthermore, in other situations, declines in interest rates may result in an increase in the valuation of certain of the Group's life insurance liabilities, due to a reduction in the discount rate applicable to the valuation of such liabilities, which would impact upon the capital position of the Group.

2.2 The inability or failure of reinsurers to meet their financial obligations or the unavailability of adequate reinsurance coverage may adversely affect the Group's operations, financial results and financial condition.

The Group has transferred part of its exposure to certain risks to other insurance companies through reinsurance arrangements. Reinsurers may become financially unsound by the time they are called upon to pay amounts due. As a result of financial market conditions and other macro-economic challenges recently affecting the global economy, reinsurers may experience increased regulatory scrutiny, serious cash flow problems and other financial difficulties. Reinsurers may also become financially unsound as a result of operational failures within their respective organisations. Due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable ratings, the Group is exposed to concentrations of risk with individual reinsurers. Where reinsurers are subject to a ratings downgrade during the term of the reinsurance arrangement, the Group may be forced to incur additional expenses for reinsurance including holding additional capital. Furthermore, market conditions beyond the Group's control determine the availability and cost of the reinsurance protection purchased. Accordingly, the Group may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect its ability to write future business. There is also the risk of the Group being unable to replace reinsurance cover in stressed conditions.

When the Group obtains reinsurance, the Group remains primarily liable for those transferred risks regardless of whether the reinsurer meets its reinsurance obligation. Therefore, the inability or unwillingness of the Group's reinsurers to meet their financial obligations or disputes on, and defects in, reinsurance contract wording or processes could materially affect the Group's operations, financial results and financial condition. Although the Group conducts periodic reviews of the financial statements of its reinsurers, reinsurers may become financially unsound by the time they are called upon to pay amounts due, which may not occur for many

years. In addition, reinsurance may prove inadequate to protect against losses which are ultimately experienced. Although the Group (like other insurers) has taken steps to seek to mitigate this risk by entering into security arrangements with certain reinsurers, such arrangements may not mitigate the risks entirely, and any inability or failure of the Group's reinsurer to meet their financial obligations could materially affect the Group's operations, financial results and financial condition.

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

2.3 The inability or failure of other counterparties, including outsourcers and service providers, with whom the Group has a material relationship could affect the Group's operations, financial results, financial condition or prevent it from meeting its regulatory obligations.

The Group is exposed to the risk of failure or default of one or more of its counterparties. In line with other large financial services organisations, the Group has a number of material relationships with outsourcers and service providers. Certain parts of the business of the Group are heavily dependent on third parties to provide services (for example, custody arrangements, processing of customer data and other administrative services). Such third party service providers could be affected by external factors outside of their control, such as economic, financial or political disruption. Capita and HSBC are two of the most significant service providers to the Group. The assets of the Group are held with a custodian bank for safekeeping. The custodian for the Group is HSBC Bank plc. Any failure by the custodian to properly administer the assets of the Group could lead to losses in the value or holding of assets by the Group. Additionally, as a result of its historic acquisitions, the Group has inherited a number of third party arrangements for the provision of services. In particular, having recently acquired RLCIS from CBG, the business of RLCIS is operationally dependent on CBG to provide services during a transitional period. If the Group does not effectively develop and implement its outsourcing strategy, third party providers do not perform as anticipated or the Group experiences technological or other problems with a transition, the Group may not realise productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business, which could have a material adverse effect on the Group's operations, financial results, financial condition or prevent it from meeting its regulatory obligations.

Whilst certain processing or specialist work relating to the business of the Group is undertaken by service providers, the Group remains fully responsible for the oversight, management and performance of the outsourced activity. There is a risk that the Group would be unable to meet its regulatory obligations following the failure of or a significant degradation in service received from a service provider. The Group is also susceptible to risks associated with the potential financial instability of service providers and business partners on which the Group relies or partially relies to provide services and grow the business.

The Group is exposed to credit risk in the event of default of a contractual counterparty including outsourcers and service providers. In addition, the Group could be adversely affected in the event of a systemic disruption to the financial markets which would impact on the operations of its counterparties and service providers such as brokers and custodians. The interdependence of financial institutions means that the failure of a sufficiently large and influential financial institution could materially disrupt securities markets or clearance and settlement systems in the markets. This could cause severe market decline or volatility. Such a

failure could also lead to a chain of defaults by counterparties that could materially adversely affect the Group. This risk, known as "systemic risk", could adversely impact future product sales as a result of reduced confidence in the financial services industry. It could also reduce results because of market decline and write-downs of assets and claims on third parties. The Group believes that, despite increased focus by regulators around the world with respect to systemic risk, this risk remains part of the financial system in which the Group operates and dislocations caused by the interdependency of financial market participants could have a material adverse effect on the business, results of operations and financial condition of the Group.

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

The Group is party to a significant number of derivative instruments, including options, forwards, credit default, interest rate, inflation and currency swaps with a number of counterparties. Obligations to policyholders are not changed by hedging activities and the Group is liable for obligations if derivative counterparties do not pay. The fair value of these instruments, and the Group's exposure to the risk of default by the underlying counterparties, depend on the valuation and the perceived credit risk of the instrument insured or guaranteed or against which protection has been bought and the credit quality of the instrument provider. Market counterparties have been adversely affected by their exposure to certain structured products and their perceived creditworthiness has deteriorated significantly since 2007. Although the Group seeks to limit and manage direct exposure to market counterparties, indirect exposure may exist through other financial arrangements and counterparties. If the financial condition of market counterparties or their perceived creditworthiness deteriorates further, the Group may record further credit valuation adjustments on the underlying instruments insured by such parties. Any primary or indirect exposure to the financial condition or creditworthiness of these counterparties could have a material adverse impact on the results of operations, financial condition and prospects of the Group. Derivative instruments held to manage product or market risks may not perform or provide returns to the Group as intended or expected resulting in higher losses and unforeseen liquidity and related collateral requirements. Additionally, hedging transactions may prove inadequate to protect the Group against the full extent of the exposures that the Group seeks to mitigate.

2.5 Counterparty default risk may have an adverse impact on profitability and financial position.

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

2.6 *Adverse capital and credit market conditions may significantly affect the Group's ability to meet liquidity needs, its access to capital and the Group's cost of capital. As a mutual insurer, the Guarantor's ability to raise new liquidity or capital is limited.*

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

The Group needs liquidity to pay operating expenses, interest on debt and to meet liabilities. Without sufficient liquidity, the Group will be forced to curtail operations, and the business will suffer. Traditional sources of liquidity for companies that are not mutuals include equity capital funding. In the case of the Guarantor, a mutual insurer, this option is not available since it has no share capital, and it is therefore more exposed than shareholder-owned insurers to risks in respect of its ability to access additional liquidity or capital. The principal sources of liquidity for the Group are premiums from policies, fees related primarily to the value of assets under management and cash flow from the investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets may include a variety of short-term and long-term instruments, including repurchase agreements, commercial paper, medium- and long-term debt, junior subordinated debt securities and capital securities. The Group may not have access to all of these short-term and long-term instruments.

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

Disruptions, uncertainty or volatility in the debt capital markets may also limit the Group's access to capital required to operate its business. Such market conditions may limit the Group's ability to satisfy statutory capital requirements, generate premiums and investment income to meet liquidity needs, and access the capital necessary to grow the business. As such, the Group may be forced to delay raising debt capital, issue shorter term securities than would be preferable, or bear an unattractive cost of capital which could decrease profitability and significantly reduce financial flexibility.

While the Group mitigates this risk by investing significant resources in liquid assets to meet short-term liabilities and operating a liquidity risk management framework that includes active monitoring of the Group's liquidity position and contingency plans for accessing liquidity such measures will not mitigate the risk entirely. Additionally, if the Group's internal sources of liquidity prove to be insufficient or if its liquidity requirements change so as to require additional funding, it may not be possible for it to successfully obtain additional financing (whether on favourable terms or otherwise).

2.7 *Some investments are relatively illiquid and are in asset classes that may experience significant fluctuations in realisable value.*

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

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

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

The Group has a number of policies written in the Republic of Ireland, both within the Royal Liver closed sub-fund and from new and existing life and protection business through its Caledonian Life brand, which are exposed to foreign currency exchange risk arising from fluctuations in the sterling: euro exchange rate. The Group's assets are denominated in a variety of currencies, of which the largest are sterling and the euro. The effect of exchange rate fluctuations could lead to fluctuations in the Group's consolidated financial statements upon translation of the results into sterling, for example, adverse foreign exchange rates could lead to lower profitability for the Group and may adversely impact its results of operations.

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

Inflation, as measured by consumer price indices or other means, is a continuing risk for the Group, particularly in respect of the Group's pension schemes. A significant proportion of the Group's maintenance costs are associated with staff salaries. If management fails to control such costs within the inflationary environment, Group profitability may be adversely impacted. In addition, significant increases in inflation can impact the Group's unit costs in other ways and hence potentially impact on profitability and the capital position of the Group.

LEGAL AND REGULATORY RISKS

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

In recent years, there have been significant changes in legislation and regulation in the UK and other jurisdictions which have had a significant impact on the UK life and pensions industry. These changes could also involve significant implementation costs and may create uncertainty in the application of relevant laws or regulation. Such changes could, among other things, restrain or limit the rate at which new business can be generated, generate greater costs in servicing existing policyholders, or result in the Group being required to increase reserves held to meet insurance liabilities or to hold additional regulatory capital resources. Additionally, the Group will not always be able to predict accurately the impact of future legislation or regulation or changes in the interpretation or operation of existing legislation or regulation on the Group's business, results of operations and/or financial condition. Changes in government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which the Group operates, which may be applied retrospectively, may adversely affect the Group's product range, distribution channels,

capital requirements and, consequently, results and financing requirements. There may also be capacity constraints to deliver high levels of change and the Group may not always be able to achieve such levels of change successfully or within a required timeframe leading to adverse impacts for the Group.

The major recent changes of particular relevance to the Group include:

3.1 Regulatory reform in structure and approach may result in an increase in compliance costs and may adversely impact the Group.

Following the onset of the recent financial crisis, the FSA (the predecessor to the PRA and FCA) adopted a more intrusive and direct style of regulation which it termed "intensive supervision". This strategy, combined with an outcome-focused regulatory approach, more proactive approach to enforcement and more punitive approach to penalties for infringements means that authorised firms are facing increasing supervisory intrusion and scrutiny (resulting in increasing internal compliance costs and regulatory supervision fees) and in the event of a breach of their regulatory obligations are likely to face more stringent penalties. This intensive approach to supervision is being continued by the PRA and the FCA. In addition, the change in the UK regulatory regime arising from the split of the FSA into the PRA and FCA, combined with a more intensive supervisory approach, may lead to an increase in the Group's regulatory costs and resources and disruption of its existing regulatory relationships, which may adversely affect the Group's results of operations.

3.2 The Group's businesses are subject to regulatory uncertainty relating to the RDR conducted by the FSA (the predecessor to the PRA and FCA).

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

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

Any increase in pricing transparency from the RDR is expected to lead to greater price sensitivity for the customer and/or to greater attention to value for money. Accordingly, a proportion of customers are expected to migrate towards self-investing as the level of information increases and customers become more aware of their own needs and corresponding financial products possibly resulting in fewer customers using investment services provided by the Group. However, it is still unclear how customers will behave post-RDR as one of the key challenges is moving the UK from a credit to a savings culture. There is potential for consumer brands or overseas competitors to view the RDR changes as an opportunity to access the UK's long-term savings market. If competition to the Group increases, then the Group's market share may decrease.

Since the implementation of the RDR in the UK, no significant adverse impacts on the Group have so far been identified. However, implementation is still relatively recent and it is possible that any future impact from the RDR may have an adverse effect on the Group's business and results of operations.

3.3 New rules regarding the protection of with-profits policyholders generally and guidance relating to the fair treatment of with-profits policyholders by mutual insurance companies may adversely impact the operations of the Group.

On 7 March 2012, the FSA published a policy statement (PS 12/04) revising some of the existing conduct of business rules and guidance for With-Profits Business and introducing new governance rules and guidance. The new rules, which have applied since 1 April 2012, include changes to the rules on the participation of with-profits policyholders in surpluses, the test for accepting new business in a With-Profits Fund, strategic investments of a With-Profits Fund, conflicts of interest and governance of With-Profits Funds. The rule changes are not currently expected to have a significant impact on the Group.

A significant amount of the Group's legacy business includes With-Profits Business and any required changes to the practices, procedures and management of its With-Profits Funds may increase the compliance and governance costs of the Group in the future, reduce the profits of the Group from With-Profits Business and may affect the strategy and operations of the Group.

The section entitled "*Regulatory Overview*" below describes recent FSA proposals for With-Profits Business within mutual insurers such as the Guarantor. These recent and proposed regulatory changes as they affect mutuals may adversely affect the Guarantor's ability to accept new business, acquire and retain strategic investments and use surplus capital in its long-term fund.

The Group is considering the possible impact to its strategy and operations in light of previous changes to COBS 20 (see the section entitled "*Regulation Overview*" below) and the subsequent, more positive, FSA proposals in consultation paper 12/38 of December 2012, which envisaged the possibility of creating a mutual capital fund within a mutual insurer, although the Group is considering an alternative proposal involving the writing of long-term products which attract certain membership benefits. This is a significant issue for the Guarantor, along with all other mutual insurers. The current mutual structure of the Group coupled with the changing regulations impacting the use of the estate held within the main With-Profits Fund, could result in the Group being constrained, with respect to, among other things, its use of the surplus assets within its main With-Profits Fund as working capital for the Group, its acquisition and retention of strategic investments, its management of regulatory capital and restrictions on its ability to write new business, along with additional compliance costs, which could adversely affect the Group's strategy and financial operations.

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

On 1 March 2011, the ECJ published its *Test Achats v Council of Ministries* (C-236/09) ruling. The ECJ ruled that the exemption in Article 5(2) of the Gender Directive, which allowed insurers to use gender-related factors in determining premiums and benefits under insurance policies, was incompatible with the prohibition on discrimination on the grounds of gender

enshrined as a fundamental right of the EU, and was therefore invalid. As a result, insurers were given until 21 December 2012 to change their practices to comply with the ECJ ruling.

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

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

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

Under Solvency II, insurers will be allowed to make use of internal economic capital models to calculate capital requirements if those models are first approved by the relevant regulator (which is the PRA for UK insurers, such as the Guarantor). The PRA has established a pre-application procedure for internal model approval to enable those firms who wish to make use of them, including the Guarantor, to submit applications for approval at an appropriate stage (the FSA started to accept internal model applications on 30 March 2012). There is a risk that if the Group does not receive permission to use an internal model following a future application, this could result in higher capital requirements and reputational damage. The PRA also has the ability to require companies to hold additional capital above its own assessment both ahead of, and following, implementation of Solvency II.

The Solvency II Framework Directive was formally adopted by the European Council on 10 November 2009 and is now proposed by the European Commission to enter into force on 1 January 2016. Amendments to the Solvency II Framework Directive are currently being negotiated between the European Parliament, European Council and the European Commission which will be implemented through the "Omnibus II Directive". The European Commission has initiated the process of developing detailed rules that will expand on the high-level principles of the Solvency II Framework Directive, referred to as "Implementing measures" and "Technical standards". This work will not be completed until after the finalisation of the Omnibus II Directive. There is significant uncertainty regarding the final text of the Implementing measures, Technical standards and the Omnibus II Directive and hence the requirements of

Solvency II. As a result, there is a risk that the effect of the measures finally adopted could be adverse for the Group, including among other things a potentially significant increase in capital to support its business and costs associated with further developments to the internal model and enhanced risk management and governance framework. In addition, there is a risk that capital instruments in issue (including the Notes) cease to qualify as regulatory capital or only qualify in a lower tier of capital than that intended on issuance.

While the high level regulation relating to Solvency II is understood, much of the low level detail and exact timescales are still undecided. One of the major areas of uncertainty in relation to Solvency II is the treatment of long-term guaranteed insurance products and the assets that back them (usually, long-term fixed interest investments, such as government bonds). The Group has a significant exposure to annuity business, the majority of which arises in RLCIS and is therefore exposed to the risk that this uncertainty will be resolved in a way that requires the Group to hold greater capital against its existing annuity business and to re-design or re-price new annuities in a way that may be unattractive to potential annuitants.

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

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

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

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

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

IMD2 (together with amendments to the Markets in Financial Instruments Directive) will also bring into force legislative proposals from the European Commission relating to packaged retail investment products ("**PRIPs**") which include new regulatory requirements for insurance PRIPs

and aims to harmonise pre-contractual disclosures and selling practices. The rules will impact how PRIPs are manufactured and sold and are expected to be in place by the end of 2014. Although there is much uncertainty surrounding the business effects of IMD2, many of the risks associated with the RDR are relevant to the changes to insurance mediation rules, such as a risk of reduced business flows through intermediaries that have changed their business models and a change in the approach of customers to insurance PRIPs which may reduce sales. IMD2 is also expected to result in greater levels of harmonisation across the EEA which may result in overseas competitors accessing the UK market and adversely impacting the Group's market share and its profits as a result.

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

The Alternative Investment Fund Managers Directive ("**AIFMD**") is a European Directive which aims to provide a harmonised regulatory and supervisory framework for managers of Alternative Investment Funds ("**AIFs**") within the EU. It sets rules regarding the organisation and conduct of business of the managers and imposes certain new requirements on the AIFs. The ultimate deadline for EU Member States to transpose the AIFMD into their national law was July 2013 and the UK met this deadline. Managers of AIFs already active before July 2013 will have until July 2014 to obtain authorisation from their relevant competent authority. At a local level, the UK regulator has introduced a new rule book to implement the AIFMD requirements, called "FUNDS". The AIFMD lays down rules for the authorisation, ongoing operation and transparency of managers of AIFs and also places additional responsibilities and liabilities on AIF depositaries. The Group may face increased compliance costs due to the need to set up additional compliance controls or reporting requirements to comply with the new rules. In addition, depositary charges to the Group may increase as they seek recompense for the additional risks and expenses introduced by the new regime and may adversely impact the profitability and financial condition of the Group.

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

Generally, VAT is currently reduced or not charged on services supplied to the Group under the Group's outsourced policy administration services agreements because these services are treated as exempt supplies for the purposes of VAT pursuant to the insurance intermediary exemption. If, however, the supplies currently treated as exempt were to be treated as taxable for VAT purposes, the costs to the Group of such supplies would increase to the extent that any VAT payable by the Group in respect of such services was not recoverable as input tax. There are proposals to change the scope of the insurance intermediary exemption. However, it is not known when any changes to the UK VAT treatment of insurance intermediation might become law, what form those changes might take and what their impact (if any) on the Group would be.

3.10 From time to time changes in tax laws (including their interpretation, amendments to existing tax rates and the introduction of new tax legislation) and/or a failure to comply with tax laws or procedures may adversely impact the Group and may impact upon the decisions of policyholders and potential policyholders.

Tax risk is the risk associated with changes in tax law (including in tax rates) or in the interpretation of tax law. It also includes the risk of failure to comply with procedures required by tax authorities or other aspects of tax law. Failure to manage tax risks could lead to an

additional tax charge, interest or financial penalties. If, as a result of a particular tax risk materialising, the tax costs associated with particular transactions are greater than anticipated, it could affect the profitability of those transactions.

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

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

Furthermore, UK taxation law includes rules governing company taxes, business taxes, personal taxes, capital taxes and indirect taxes. The Group is not able to predict the occurrence of changes nor the impact of changes that may be announced in the future to UK tax legislation on its business including the particular status of mutual companies without shareholders. From time to time changes to UK and overseas tax laws (including as a result of changes in the interpretation of such tax laws, amendments to existing tax rates or the introduction of new tax legislation in the UK or overseas) may adversely impact the business, results of operations and financial condition of the Group.

3.11 Changes to IFRS generally or specifically for insurance companies may adversely affect the Group's financial results.

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

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

The Group values FV securities using designated methodologies, estimations and assumptions. During periods of market disruption including periods of significantly rising or high interest rates or rapidly widening credit spreads or illiquidity, it may be difficult to value certain of the

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

3.13 The Group could be involved in various legal proceedings and regulatory investigations and examinations from time to time and any one or a combination of these could have a material adverse effect on its financial condition and results of operations.

The Group, like other financial organisations, may be subject to legal proceedings and regulatory investigations in the normal course of its business from time to time. Such proceedings may relate to aspects of the Group's businesses and operations that are specific to the Group, or that are common to companies that operate in the Group's markets. Due to the nature of these proceedings, it is not practicable to forecast or determine the final results of all such proceedings. Although the Group believes that it has made adequate provisions for all current/known material costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient.

Additionally, although the Group has historically pursued a limited strategy of international development, principally through its former Royal London 360° business, it is possible that a regulator in one of the jurisdictions in which the Group conducts its business may conduct regulatory investigations, including a review of products previously sold, either as part of an industry-wide review or specific to the Group. The Group has in the past sold products in overseas jurisdictions through intermediaries and such sales may not in future be deemed to have been made on a fully compliant basis under local law.

3.14 Retrospective mis-selling risk could lead to regulatory action.

Most of the Group's products are distributed via intermediaries. However, until 2001, most life and pensions products written by the Group were distributed through employed (or direct) sales forces. The remuneration of those sales forces, which provided a face-to-face financial planning and advisory service, was largely based on the value of the business sold. Products which are sold directly have higher potential exposure to mis-selling claims. The Group has received, and may in the future receive, complaints from certain customers that they received misleading advice from advisers or intemediaries as to which products were most appropriate for their circumstances or that the nature of the products sold to them, or the circumstances in which the products were sold to them, were misrepresented. Such customers have sought, and may in the future seek, redress for such advice. Complaints may also arise in respect of any aspect of the business where customers feel that they have not been treated reasonably or fairly.

The Financial Ombudsman Service in the UK ("**FOS**") exists to resolve individual or small business policyholder disputes. From time to time decisions taken by the FOS may, if extended

to a particular class or grouping of policyholders, have a material adverse effect on results of operations and financial condition of the Group.

The Group regularly reviews product literature, customer services processes and incoming customer complaints and, having assessed the issue, seeks to take appropriate action. While the Group has invested a considerable amount of time and money in reviewing and assessing its historic sales practices and has in place risk management, legal and compliance procedures to monitor its current sales practices, there can be no assurance that all of the issues associated with current and historic sales practices have been or will be identified, nor that any issue already identified will not be more widespread than presently estimated. The negative publicity associated with any new sales-related issue and any compensation payable in respect of any such issue could have a material adverse effect on the Group's business, results of operations and financial condition.

STRATEGIC RISKS

4 The Group is exposed to risks arising from the fundamental decisions taken concerning the Group's objectives and the risk of failing to achieve these objectives.

4.1 The implementation of the Group's strategy may not proceed successfully and corporate transactions may potentially divert management attention and other resources and may materially adversely affect the Group's operations and financial position.

The strategy of the Group encompasses organic growth and growth by acquisition in order to increase its scale, efficiency and competitiveness as well as through new initiatives such as brand development and establishment of a new business to sell insurance direct to consumers. There has been successful growth of the Group in recent years, together with internal change programmes to continually improve the Group's capabilities and the experience of its customers. One example of a recent strategic transaction is the acquisition of the life and pensions businesses of CBG, namely RLCIS and RLAM(CIS), pursuant to a share purchase agreement between the Guarantor and CBG dated 18 March 2013 (the "**SPA**"). Although the acquisition has been completed, the Group intends to hold RLCIS as a wholly-owned subsidiary and will maintain the RLCIS long-term business fund (the "**CIS LTBF**") for the benefit of RLCIS's with-profits policyholders. It is intended that the CIS LTBF will be transferred to the Guarantor at some point in the future by way of a business transfer under Part VII of the FSMA. The CIS LTBF is a sub-fund within RLCIS and the Royal London Open Fund has committed to provide capital support in the event that the CIS LTBF moves into deficit. As a sub-fund, many risks are self-contained within the CIS LTBF. As a result, changes in the CIS LTBF's value will not affect Royal London Open Fund policyholders, unless the value reduces to such an extent that RLCIS cannot pay out the amounts guaranteed to its customers. As with the Group's other funds, the Board have approved and implemented a detailed capital management plan for the CIS LTBF in order to manage this fund to be self-sufficient and not require capital support from the Royal London Open Fund. However, if the CIS LTBF did move into deficit, the Royal London Open Fund would have to make up any shortfall.

Under the SPA, deferred consideration of £180 million is payable to CBG when certain conditions are met, in particular when assets of the same value within RLCIS become available to the Guarantor. There could be a risk associated with the process by which such assets become available to the Guarantor or the potential for disagreement with CBG which, if material, could lead to dispute, litigation and ultimately financial loss to the Group. Additionally, as part of the

transaction, CBG will provide transitional services to the entities acquired by the Group, which as described above could give rise to material counterparty exposure, which if realised could materially affect the operations and financial position of RLCIS and ultimately the Group. The contractual agreement for the provision of transitional services sets out the approach towards the cloning and migration of data and systems, which are essential for the future operation of RLCIS. If this is not realised or delivered by CBG as required, it could materially affect the operations and financial position of RLCIS and ultimately the Group.

Acquisitions made in the past or future acquisitions which the Group may make may not realise the profitability or synergies expected at the time of the acquisition. Should the Group proceed with future acquisitions, such acquisitions could potentially result in an adverse effect upon the Group's operating results and could cause a substantial amount of management time to be diverted from operations. As a result, this could result in a loss of earnings and additional indebtedness, costs, contingent liabilities, and impairment and amortisation expenses, all of which could materially adversely affect the Group's business, financial condition and results of operations.

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

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

4.3 The Group's business is concentrated in the UK and exposed to catastrophic events there.

The Group is exposed to the economic, market, fiscal, regulatory, legislative, political and social conditions in the UK and to a lesser extent the Republic of Ireland. In addition, the Group is exposed to the incidence and severity of catastrophic events in the UK, whether natural or man-made. The Group's investment portfolio is especially exposed to changes in UK economic and market conditions. Volatility in the economy and investment markets and the continuing prospects for low growth rates in the UK can affect consumers' disposable income and appetite for the Group's products and services.

Although the Group has historically pursued a limited strategy of international development, principally through its former Royal London 360° business, the Group's focus is on the UK as its core market. If there is further deterioration in the UK economy, this would increase the risk to the Group, as it has limited exposure to other geographical markets.

4.4 The market for new life assurance and pensions business is highly competitive and competition is likely to intensify.

The market for new life assurance and pensions business is highly competitive and includes a number of product providers with operations that are either comparable to or larger than the Group's operations in their size, scope and brand recognition. Many of these competitors offer similar products and compete to distribute products through intermediaries. The principal competitive factors in the sale of life assurance and pensions products are price, flexibility, innovation of product design, commission structure, marketing and distribution arrangements, brand strength and reputation, financial strength ratings, investment returns and customer service. Competition will likely intensify across all business lines in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other

factors, with a particular increase in competition in pricing. The ability to generate an appropriate return depends significantly upon the Group's capacity to anticipate and respond appropriately to these competitive pressures.

If the Group is unable, or is perceived to be unable, to compete on one or more of these factors as effectively and successfully as its competitors, the Group's competitive position may be adversely affected which, as a result, could have a material adverse effect on the Group's business, results of operations or financial condition.

4.5 Past performance may not be indicative of future investment performance and future relative investment underperformance may adversely affect the Group's ability to attract new business and retain existing business.

The Group cannot accurately predict its investment performance as it is dependent on a variety of factors beyond its control. The historical returns achieved by the Group may not provide a meaningful basis upon which to assess the future performance in this regard. A failure by the Group to replicate past performance could adversely affect new business sales and so could have a material adverse effect on the Group's reputation and financial condition.

Various classes of insurance business undertaken by the Group produce returns based on investment income. RLAM is the investment manager of the assets underlying many of the contracts sold by the Group, as well as for a wide range of institutional and wholesale clients. As at 30 June 2013, the proportion of RLAM's funds under management between the Group and other external clients were 69 per cent. and 31 per cent. respectively. In July 2013, the Guarantor also acquired RLAM (CIS) as part of the RLCIS transaction, which manages the assets of the RLCIS business.

Investment performance is a factor in the selection of product provider by distributors and their customers for some product types, for example, personal and group pension products. If RLAM and/or RLAM (CIS) consistently underperforms relative to other fund managers, it could lead to difficulties for the Group in attracting new business and to the early termination, surrender or transfer of existing investment-related business. Difficulties in attracting new business or retaining existing business could have a material adverse effect on the Group's business, results of operations and/or financial condition.

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

A significant proportion of the Group's new business is derived from independent distributor firms, over whom the Group has no direct influence. Effective distribution is therefore dependent on meeting a number of competitive challenges.

The RDR will likely have a significant impact on the provision of advice by financial advisers within the retail financial services market and may give rise to additional costs as business models adapt over time to the new rules. There is a risk that the implementation of the RDR for retail advisory and distribution firms will lead to a decline in the number and/or size of retail distribution firms as financial advisers may decide to consolidate or to leave the sector as a response to the potential increase in costs of complying with the new practices and higher professional standards required by the FCA. If a reduction in the capacity of the intermediary distribution sector does occur, this may in turn lead to a reduction in the opportunities for the Group's products to be distributed by retail and financial advisory firms. For further details on the RDR, see "*Risk Factor — The Group's businesses are subject to regulatory uncertainty relating to the RDR conducted by the FSA (the predecessor to the PRA and FCA)*" above.

REPUTATIONAL RISKS

5 There are risks that a negative event will adversely impact stakeholders' perception of the Group.

5.1 The Group is vulnerable to adverse market perception as it operates in a highly regulated industry where it must display a high level of integrity and have the trust and confidence of its customers and of consumers. The Group is also dependent on the strength of its brands and intermediaries and the Group's reputation with customers and agents in the sale of products and services.

The Group's success and results are, to a certain extent, dependent on the strength of the Group's brands and reputation and other intermediaries, on whom the Group relies for the distribution of a significant proportion of its insurance products. While the Group is well recognised, it is vulnerable to adverse market and customer perception. It operates in an industry where integrity, customer trust and confidence are paramount.

The Group is exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information and inadequate services, amongst others (whether or not well founded) could negatively affect its reputation. Any of the Group's brands or the Group's reputation could also be affected if products or services recommended by the Group (or any intermediaries) do not perform as expected (whether or not the expectations are well founded) or in line with the customers' expectations for the product range.

Any mismanagement, fraud or failure to satisfy fiduciary or regulatory responsibilities, or the negative publicity resulting from such activities or the accusation by a third party of such activities (whether or not well founded) associated with the Group or a relevant investment sector generally could have a material adverse effect on the Group's business, results of operations and financial condition.

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

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

Rating organisations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to general economic conditions and circumstances outside the rated company's control. In view of the difficulties experienced recently by many financial institutions, including the Group's competitors in the insurance industry, it is possible that the rating agencies, including S&P and Moody's, will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of

their credit reviews, will request additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in their models for maintenance of certain ratings levels. The Guarantor cannot predict what actions rating agencies may take, or what actions may be taken in response to the actions of rating agencies, which could adversely affect the Group's business. As with other companies in the financial services industry, the Guarantor's ratings could be downgraded at any time and with little or no notice by any rating agency. A downgrade may adversely affect relationships with broker-dealers, banks, agents, consultants, wholesalers and other distributors of products and services, which may negatively impact new sales and adversely affect the ability to compete and, thereby, have a material adverse effect on the Group's business, results of operations and financial condition. In addition, the interest rates paid on borrowings of the Group are affected by debt credit ratings and a downgrade could increase the costs of borrowings for the Group or require higher collateral amounts to be posted under derivative contracts, impacting on its results of operations and capital position.

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

The Group is required to comply with certain legal and regulatory requirements in respect of disclosure and dissemination of information, including to the London Stock Exchange. Failure to manage disclosure risk could result in breach of law, regulatory censure and reputational damage leading to loss of investor confidence and/or financial loss. Financial and prudential reporting risk is the risk of reputational damage, loss of investor confidence and/or financial loss arising from the adoption of inappropriate accounting policies, ineffective controls over financial reporting or over prudential regulatory reporting and financial reporting fraud.

CONDUCT RISKS

6 There are risks that the Group's behaviour will result in poor outcomes for customers.

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

Customer treatment risk arises as a result of the Group's interaction with customers and represents the risk that the Group achieves outcomes for customers, which are, or could be expected to become, detrimental to them. Additionally, as the Group is reliant on intermediaries to distribute its products, there is a risk of the Group being exposed to poor customer treatment from such third parties. Associated risks include poor product design and development, inappropriate literature and promotions, poor customer advice and failings in administration and customer service including customer complaint handling. This could result in regulatory censure and fines, additional costs incurred for back book reviews, and customer redress, as well as weakening customer loyalty and reputational damage, leading to a reduction in earnings.

6.2 Policyholders may attempt to seek redress where they believe a product fails to meet expectations.

The design of long-term insurance and investment products is predicated on legislation (particularly tax legislation) and regulation applicable at that time. However, future changes in, or interpretation of, the legislation or regulation may, when applied to these products, have a

material adverse effect on the financial condition of the relevant long-term funds in which the business was written and therefore have a negative impact on policyholder returns.

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

INSURANCE RISKS

7 Insurance risk within the Group arises primarily in relation to its life assurance and pension products, including fluctuations in the Group's own funds or profits in the timing, frequency and severity of insured events relative to those expected when the risk was originally accepted.

7.1 Adverse experience compared with the assumptions used in pricing products, establishing provisions and reporting business results may have a material adverse effect on the financial position of the Group.

The use of mis-estimated assumptions in pricing, reporting and reserving for insurance business may have an adverse effect on business profitability. The management of the life insurance business within the Group requires certain assumptions to be made in (i) determining the pricing of its products, (ii) setting reserves levels and (iii) reporting its capital levels and the results of its long-term business operations. Actual experience will be different from these assumptions.

The Group's financial results depend to a significant extent on the accuracy of the assumptions and models used at the time a particular policy is underwritten for the purpose of establishing the prices of products and the amount of provisions for future policy benefits and claims. The assumptions employed are estimates based on historical data and statistical projections of the expected future values of settlement and administration liabilities and are therefore applied to arrive at quantifications of some of the risk exposures of the Group. The actual amounts payable by the Group to satisfy their liabilities may vary from the estimated amounts, particularly if the amounts are payable well into the future.

Pricing of certain products (such as pensions) is based on assumptions regarding investment return. If actual investment performance is lower than the underlying assumptions, the Group's profitability would be negatively affected. In respect of protection products, if the actual claims experience is less favourable than the underlying assumptions (due to, for instance, unexpected claims, or higher than anticipated frequency or size of claims), or if it is necessary to increase provisions in anticipation of a higher number or value of future claims, it may be necessary to increase prices for future insurance policies and to set aside additional capital and provisions for existing policies.

When establishing their liabilities, life insurance companies allow for changes in market conditions and monitor their experience against the assumptions used and assess the information gathered to refine their long-term assumptions. However, it is not possible to determine precisely the amounts in total that will be ultimately necessary to pay liabilities under

the policies written by the business. Amounts will vary from estimates, particularly in the light of the long-term nature of the life insurance business, for example, the impact of epidemics and other effects that cause a large number of deaths.

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

In addition, it is necessary for the directors of the Group to make decisions, based on actuarial advice, which ensure an appropriate build-up of assets and liabilities relative to one another. These decisions include the allocation of investments among equity, fixed income, property and other asset classes, the setting of policyholder bonus rates and the setting of surrender terms and any applicable market value adjustments. There is a risk that certain policyholders may complain to the Group that their interests have been adversely affected, or that they have otherwise been treated unfairly, by such decisions. These complaints may give rise to regulatory consequences (including sanctions) or compensation obligations for the Group, which in turn may have a material adverse effect on the Group's business, results of operations or financial condition. In addition, the ability of directors to take such decisions may be constrained by past practice and policyholders' expectations as set out in the PPFMs applicable to With-Profits Funds within the Group. Currently, the Group has in place a number of PPFMs which are applicable to its With-Profits Funds and these may limit its ability to take management actions which would otherwise protect the financial position of the relevant With-Profits Fund ultimately requiring capital support from the main With-Profits Fund, which could adversely affect the capital position and results of the operations of the Group.

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

Lapse risk is the risk of policy lapse or withdrawal at greater than expected rates. Premature lapse can result in failure to fully recover the up-front expenses incurred in selling a product, which may in turn force the Group to sell assets at depressed prices and lead to the loss of ongoing investment management charges. Similar risks exist in respect of actual (as against expected) take up of options by policyholders. Factors that cause lapse rates to vary over time include changes in investment performance of the assets underlying the contract, regulatory or tax changes that make alternative products more attractive, customer perceptions of the insurance industry in general and the Group in particular, and the general economic environment (with higher lapse rates expected in recessionary times). If the assumptions relating to the future profitability of these policies (such as assumptions relating to future claims, investment income and expenses) are not realised, these costs could be amortised over a shorter period than anticipated or written off entirely if deemed unrecoverable. The accelerated amortisation or write-off of amounts in the balance sheet could have a material adverse effect on the Group's results.

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

The Group has an exposure to mortality risk (being the risk related to the frequency of deaths) and morbidity risk (being the risk related to the prevalence of a disease) from its insurance business. The risk could be aggravated by any potential failure in underwriting processes and standards designed to identify sub-standard lives at the new business stage or the failure of reinsurance cover to adequately cover such risk.

The life insurance companies within the Group have made a number of assumptions regarding mortality and morbidity rates which may or may not prove to be correct. It may be many years before the assumptions are able to be verified to be correct. Changes in assumptions may lead to changes in the level of capital required to be maintained. In the event that the capital requirements of the Group increase, the amount of any excess capital available for other business purposes will decrease. To the extent that actual claims experience is less favourable than the underlying assumptions, or it is necessary to increase provisions in anticipation of a higher rate of future claims, the amount of additional capital required (and therefore the amount of capital which can be released from the businesses and the ability of the Group to manage its businesses in an efficient manner) may all be materially adversely affected. If the assumptions underlying the reserving basis are shown to be incorrect, this may have an adverse effect on the profitability of the relevant business.

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

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

In future periods, where the judgements, estimations and assumptions used by the Group in preparing its consolidated financial statements are found to differ from actual experience, there could be a material impact on the Group's results of operations and a corresponding impact on its funding requirements and regulatory capital.

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

The Group has significant exposure to annuities, the majority of which currently reside in RLCIS, and although these are mitigated through collateralised third party reinsurance arrangements, the Group is still responsible if the reinsurer defaults on its reinsurance obligations. A significant insurance risk is associated with longevity. Longevity risk is the risk attached to increasing life expectancy of annuitants which can eventually translate into annuities being paid for longer than expected. Longevity-related statistics are monitored in detail, compared with emerging internal experience and industry trends, and the results are used to inform both the reserving and pricing of annuities. Inevitably, there remains uncertainty

about the development of future longevity and the future availability of techniques (such as reinsurance and swaps) to mitigate that risk. Further, should there be significant advances in medical treatment for certain health conditions the Group could be exposed to significant increases in liabilities under annuity contracts which could adversely affect its financial position and profitability.

There has been significant market concern as to the implications of guaranteed annuity options on reserving and bonus declarations. The Group seeks to manage this issue in accordance with both the terms of the issued policies and the interests of customers, and has obtained external advice supporting the manner in which it operates the long-term funds in this respect. The most significant factors affecting the cost of these liabilities relative to the provisions made are the number of customers electing to exercise their option to take the more favourable annuity rates and the relative value of the derivatives and the liabilities. If the cost of any such guarantee and options or take-up rate assumed turned out to be greater than expected, this would adversely impact the Group's capital position, potentially requiring additional management actions to be triggered, though it should be noted that the majority of such guarantees are within the closed sub-funds, rather than in the Royal London Open Fund.

7.6 PPFMs and associated restrictions on assets within the Group.

In relation to the Group's With-Profits Businesses including the Royal London Open Fund and its closed sub-funds, the basis on which the business of the Group is run is governed by the terms of the relevant PPFMs applicable to that fund. As a result of the Group's historical acquisitions and business transfers, there are currently seven PPFMs in place governing the various With-Profits Funds of the Group. The fact that multiple sets of PPFMs are in place in respect of the Group's With-Profits Funds, each of which may contain bespoke terms, leads to operational complexity in the operation of the Group's With-Profits Businesses. Bespoke terms contained within these sets of PPFMs will need to be taken into account in the event that the Group needs to take management actions to protect the financial position of the relevant With-Profits Fund and such management actions will need to be consistent with them. Ultimately, if management actions are restricted this could result in the need for capital support from the Royal London Open Fund to be made available, which could adversely affect the capital position and results of the operations of the Group.

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

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

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

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

condition. The Group's ability to write new business could also be affected. The Group would also be exposed to reinsurer counterparty risks in such an eventuality.

7.9 Insurance fraud claims may adversely affect the Group's financial results.

Fraudulent insurance claims may be made from time to time which the Group is unable to detect or unable to detect in a timely fashion, such as the payment of annuities in respect of persons who are deceased, despite having extensive fraud prevention systems and processes in place. The volume, value and frequency of fraudulent claims may increase from time to time for various reasons and if not detected and inadvertently paid, can impact on anticipated claims volumes and matching reserves, resulting in adverse effects on the profits and results of operations of the Group.

Life insurance fraud in the form of fake death claims, policy takeover, pension liberation fraud (also known as pension busting), intermediary commission fraud and exaggerated protection claims expose the Group to a greater risk of significant losses in respect of the individual cases and a heightened risk of regulatory censure in handling such cases.

OPERATIONAL RISKS

8 The Group is subject to risks from issues arising from its people, its processes and its systems, which also encompasses the risks from external events such as disasters and disruptions.

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

Operational risks, through inadequate or failed internal processes, systems (including financial reporting and risk monitoring processes) or security or from people-related or external events, including the risk of fraud and other criminal acts carried out against the Group, are present in the Group's businesses. The Group's businesses are highly dependent on its ability to process and report accurately and efficiently a high volume of complex transactions across numerous and diverse products and services, and are subject to a number of different legal and regulatory regimes. Any weakness in these internal processes, systems or security could have an adverse effect on the Group's results, reporting of such results, and on the ability to deliver appropriate customer outcomes during the affected period. Where such services are outsourced to third party providers, a failure in the processes, systems or security of such providers will have an adverse effect on the Group's operations.

Specifically, failure to develop, deliver or maintain effective IT solutions could have a material adverse impact on customer service. In addition, any breach in security of the Group's systems, for example from increasingly sophisticated attacks by cybercrime groups, could disrupt its business, result in the disclosure of confidential information and create significant financial and legal exposure to the Group. The resilience of the Group's IT is of paramount importance to the Group. Accordingly, significant investment has been made in IT infrastructure and systems to ensure its resilience and to enhance the services it supports. The Group continues to invest in IT and information security control environments including user access management and records management to address evolving threats, and maintains contingency plans for a range of Group-specific and industry-wide IT and breach of security scenarios. Although the Group allocates significant resource to maintaining and regularly updating its processes and systems and uses

tools that are designed to protect the security of the Group's systems, software, networks and other technology assets, there is no assurance that all of the Group's measures will provide absolute security. Any damage to the Group's reputation (including to customer confidence) arising from actual or perceived inadequacies, weaknesses or failures in Group systems, processes or security could have a material adverse effect on the Group's results of operations, financial condition or prospects.

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

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

Certain parts of the business of the Group are heavily dependent on third parties to provide services such as custody arrangements, processing of customer data and other administrative services. Any services failure, defaults or computer system failure or security breach relating to such third party service providers may disrupt the business, damage the reputation of the Group and adversely affect the Group's results.

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

The Group has in place risk management policies, procedures and assessment methods to identify, assess and control risks to avoid or limit potential losses or liabilities. However, such policies, procedures and assessment methods may not be fully effective in identifying and mitigating the risk exposure of such businesses in all market environments or against all types of risk, which may result in the Group being exposed to unidentified or unanticipated risks.

As witnessed in recent periods, financial services companies have not been able to prevent losses arising from extreme or sudden market dislocations that were not anticipated by such companies' risk measures and systems or which were more extreme than anticipated and therefore lead to serious losses. Moreover, loss and concentration stress tests to identify potentially highly correlated exposures proved, and may in the future prove, to be inadequate, which could adversely impact the Group's results of operations and financial condition.

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

A significant proportion of the Group's product sales are unit-linked contracts, where product benefits are linked to the prices of underlying unit funds. Whilst comprehensive controls are in place, there is a risk of error in the calculation of the prices of these funds, which may be due to human error in data entry, IT-related issues or other causes. Additionally, it is possible that policy charges which are deducted from these contracts are taken incorrectly, or the

methodology is subsequently challenged by policyholders or regulators and changed retrospectively. These risks are also faced by the Group's fund management business.

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

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

Errors may affect the calculation of unit prices, deduction of charges, premiums charged or bonuses declared which may require it to compensate customers retrospectively. Although controls are in place to mitigate these risks these may not be effective to eliminate the risk of errors, and such errors could give rise to future liabilities. Payments due to errors or compensation may negatively impact the Group's profits.

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

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

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

8.6 The Group may be required to make significant further contribution to its pension schemes if the value of pension fund assets are not sufficient to cover potential obligations. An increase in the Group's funding commitment for its defined benefit pension schemes may impact on its financial position.

The Group maintains defined benefit staff pension schemes (for further details, see the section entitled "*Description of the Guarantor — Staff pension schemes*"). There are three defined benefit schemes which are closed to new members. These schemes are funded by the Group on a funding basis, and the amount of capital is at a surplus on an IFRS basis. It is not possible to predict whether a deficit will arise in any of the schemes in the future. Should a funding deficit arise, the Group will be required to provide additional funding, increasing funding costs, which could adversely impact the Group's financial position. In addition, pension risks are required to be taken into account in the calculation of the Group's capital. The Group's pillar 2 capital calculation currently includes an amount in respect of the Group's risks in relation to its defined benefit pension schemes and there is a risk that additional amounts may be required to be held in the future.

The Group's main risks in managing its defined benefit pension schemes arise from inflation, interest rates and longevity and from risks associated with the schemes' investment strategies. Any adverse movements in these factors could increase future funding costs and could adversely impact the Group's financial position.

There are inherent funding risks associated with the defined benefit schemes since the liabilities of a defined benefit pension scheme, which are long-term in nature, may at any time exceed the value of that scheme's assets. A deficit will arise in relation to an ongoing pension scheme where there has been investment underperformance (i.e. where the value of the asset portfolios and returns from them are less than expected) and also where there are greater than expected increases in the estimated value of the scheme's liabilities, for example on account of increased longevity of participants in the pension scheme. Should a funding deficit arise, where necessary, appropriate actions, including possible further contributions from the Group, will be agreed with the scheme trustees. In addition, the UK Pensions Regulator has powers to require members of the Group and their "connected" or "associated" persons to provide additional contributions or other forms of financial support in certain circumstances. Any such requests of the regulator may adversely affect the capital position of the Group by the amount of the required additional contributions.

(B) RISKS RELATING TO THE NOTES

9 Risks related to the Structure of the Notes

9.1 Payment Obligations and Subordination

The Issuer's payment obligations under the Notes will be direct and unsecured and rank *pari passu* and without any preference among themselves.

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders may claim or prove in such Issuer Winding-Up. If and to the extent that the amount that the Trustee or the Noteholders could recover in such Issuer Winding-Up (including any damages awarded for breach of any obligations thereunder) would exceed the amount per Note that would have been paid in respect of such Note in such Guarantor Winding-Up (had the Note been a subordinated obligation of the Guarantor for an

amount equal to the relevant Guaranteed Amounts and ranking *pari passu* with the Guarantee), then the Trustee and the Noteholders shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such amounts and the right thereto to the Guarantor.

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders (in each case in relation to any amount which they are entitled to receive in such Issuer Winding-Up in respect of, or arising under, the Notes and the Trust Deed (including any damages awarded for breach of any obligations thereunder)) shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such amounts and the right thereto to the Guarantor as consideration for the Guarantor's agreement to assume, or procure the assumption by a Subsidiary of the Guarantor of, the obligations of the Issuer pursuant to, and in accordance with, Condition 4(*c*) and irrevocably to have authorised and directed the Issuer (or its liquidator or administrator, as appropriate) to make the payment of any such amounts directly to the Guarantor.

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

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

9.2 Payments by the Issuer and the Guarantor are conditional upon the satisfaction of solvency requirements

Save in the event of a Guarantor Winding-Up, all payments by the Issuer or Guarantor under or arising from the Notes or Guarantee, as applicable, are conditional upon the Guarantor being solvent at the time for payment by the Issuer or, as appropriate, the Guarantor, and no amount shall be payable under or arising from the Notes and the Trust Deed (including, without limitation, the Guarantee) unless and until such time as the Issuer or, as appropriate, the Guarantor, could make such payment and the Guarantor still be solvent immediately thereafter (the "**Solvency Condition**"). For these purposes, the Guarantor will be "solvent" if (i) it is able to pay its debts owed to Senior Creditors and Parity Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons in their capacity as Junior Creditors). If any payment of interest, Arrears of Interest and/or principal cannot be made by the Issuer or, as appropriate, the Guarantor, in compliance with the Solvency Condition, payment of such amounts will be deferred, and such deferral will not constitute a default under the Notes for any purpose.

9.3 Interest payments under the Notes and the Guarantee may be deferred and under certain conditions must be deferred

The Issuer or Guarantor may, on any Interest Payment Date, elect to defer payments of interest on the Notes for any reason. In addition, the Issuer, failing whom the Guarantor, is required to defer any payment of interest on the Notes (i) in the event that such payment cannot be made in compliance with the Solvency Condition or (ii) on each Regulatory Deficiency Interest Deferral Date (being an Interest Payment Date in respect of which a Regulatory Deficiency Interest

Deferral Event has occurred and is continuing or would occur if payment of interest were made on such Interest Payment Date).

The deferral of interest (and Guaranteed Amounts in respect of interest) as described above does not constitute a default under the Notes or the Guarantee for any purpose. Any interest so deferred shall, for so long as the same remains unpaid, constitute Arrears of Interest. Arrears of Interest do not themselves bear interest. Arrears of Interest may, subject to certain conditions, be paid by the Issuer at any time upon notice to Noteholders, but in any event shall be payable, subject to satisfaction of the Regulatory Clearance Condition and the Solvency Condition, on the earliest to occur of (a) the next Interest Payment Date which is not a Regulatory Deficiency Interest Deferral Date and on which payment of interest in respect of the Notes is made, (b) the date on which a Guarantor Winding-Up occurs or (c) the date fixed for any redemption or purchase of the Notes pursuant to Condition 8 or Condition 12.

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

9.4 Redemption payments under the Notes must, under certain circumstances, be deferred

Notwithstanding the expected maturity of the Notes on the Maturity Date, the Issuer must defer redemption of the Notes on the Maturity Date or on any other date set for redemption of the Notes pursuant to Condition 8(*d*), 8(*e*) or 8(*f*) in the event that it cannot make the redemption payments in compliance with the Solvency Condition or (ii) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if the Notes were redeemed by the Issuer on such date.

The deferral of redemption of the Notes (and the payment of Guaranteed Amounts in respect of redemption of the Notes) does not constitute a default under the Notes or the Guarantee for any purpose. Where redemption of the Notes is deferred, subject to certain conditions (including satisfaction of the Regulatory Clearance Condition and the Solvency Condition), the Notes will be redeemed by the Issuer on the earliest of (a) the date falling 10 Business Days following cessation of the Regulatory Deficiency Redemption Deferral Event, (b) the date falling 10 Business Days after the PRA has approved the repayment or redemption of the Notes in the circumstances in which it is permitted to do so under the Relevant Rules (as defined in the Conditions) or (c) the date on which a Guarantor Winding-Up occurs.

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

9.5 Early Redemption

The Notes may, subject as provided in Condition 8, at the option of the Issuer, be redeemed before the Maturity Date at their principal amount, together with any Arrears of Interest and any other accrued but unpaid interest to (but excluding) the date of redemption, on any Interest

Payment Date falling on or after the First Call Date, or at any time (i) in the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof, or (ii) following the occurrence of a Capital Disqualification Event or the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Ratings Methodology Event (provided that, in the case of a Ratings Methodology Event, the Notes will not be redeemed prior to the later of (a) the occurrence of the Ratings Methodology Event (or the Trustee being satisfied as aforementioned) and (b) the fifth anniversary of the Issue Date).

A Capital Disqualification Event shall be deemed to have occurred if, as a result of (a) any change to the Relevant Rules (or change to the interpretation of the Relevant Rules by any court or authority entitled to do so), (b) the implementation of Solvency II or the Relevant Rules implementing Solvency II or (c) any change to Solvency II (or change to the interpretation of Solvency II by any court or authority entitled to do so) following its implementation, the Notes cease to qualify in full for recognition in the capital resources of the Issuer, the Guarantor and/or the Insurance Group.

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

An investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

9.6 Variation or substitution of the Notes without Noteholder consent

Subject as provided in Condition 8, the Issuer may, at its option and without the consent or approval of the Noteholders, elect to substitute the Notes for, or vary the terms of the Notes so that they become or remain, Qualifying Dated Tier 2 Securities or Rating Agency Compliant Securities (as the case may be) at any time in the event of certain changes in the tax treatment of the Notes or payments thereunder due to a change in applicable law or regulation or the official interpretation thereof, or following the occurrence of (or if the Issuer satisfies the Trustee that there will occur within six months) a Capital Disqualification Event or a Ratings Methodology Event.

9.7 *Restricted remedy for non-payment when due*

If the Issuer is in default of any payment of interest or any principal due in respect of the Notes, the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Conditions) any Noteholder may claim under the Guarantee (in accordance with the terms of the Guarantee) for such payment.

If default is then made by the Guarantor for a period of 14 days or more in the payment of any amount due under the Guarantee, the sole remedy against the Guarantor available to the Trustee or (where the Trustee has failed to proceed against the Guarantor as provided in the Conditions) any Noteholder for recovery of amounts which have become due in respect of the Guarantee will be the institution of proceedings for the winding-up in England and Wales (but not elsewhere) of the Guarantor and/or proving in any winding-up or in any administration of the Guarantor and/or claiming in the liquidation of the Guarantor. Subject as set out below and in the Conditions, there would be no separate remedy against the Issuer in this circumstance.

In the event that a Guarantor Winding-Up occurs but an Issuer Winding-Up has not occurred or is not occurring, the Trustee or (where the Trustee has failed to proceed against the Guarantor as provided in the Conditions) any Noteholder may prove in the winding up or administration of the Guarantor (whether in England and Wales or elsewhere) and/or claim in the liquidation of the Guarantor (whether in England or elsewhere), but may take no further or other action to enforce, prove or claim for any payment by the Guarantor in respect of the Notes or the Trust Deed (including the Guarantee).

In the event that an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee or (where the Trustee has failed to proceed against the Guarantor as provided in the Conditions) any Noteholder may claim under the Guarantee for the recovery of the Guaranteed Amounts and the sole remedy available will be the institution of proceedings for the winding-up in England and Wales (but not elsewhere) of the Issuer and/or the Guarantor and/or proving in any winding-up or in any administration of the Issuer and/or the Guarantor and/or claiming in the liquidation of the Issuer and/or the Guarantor. There can be no assurance that an Issuer Winding-Up will occur at the same time as or following a Guarantor Winding-Up.

Non-payment by the Issuer of any amounts when due or the occurrence of any Issuer Winding-Up will not, of itself, render the Notes immediately due and payable at their principal amount. In circumstances where the Issuer fails to make a payment when due or an Issuer Winding-Up occurs but the Guarantor does not default in its obligations, the Guarantor shall procure the substitution of itself or of another Subsidiary of the Guarantor as issuer of the Notes in place of the Issuer as if the Issuer default had not occurred.

9.8 *Modifications and waivers*

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also provide that, subject to the prior consent of the PRA being obtained (so long as such consent is required), the Trustee may, without the consent of Noteholders, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed in the circumstances described in Condition 16.

9.9 Substitution of obligors and transfer of business

The Conditions provide that the Trustee may, without the consent of the Noteholders, agree to the substitution of another company as principal debtor or guarantor under the Notes in place of the Issuer, or, as the case may be, the Guarantor in the circumstances described in Condition 15.

In addition, Condition 17 provides that the Guarantor may transfer the whole or a substantial part (being any part which represents 50 per cent. or more of the liabilities (where the amount of the liabilities of the Guarantor is deemed to mean the same as the technical provisions of the Guarantor, net of reinsurance) relating to policies underwritten by the Guarantor) of its business, without any prior approval from the Trustee or the Noteholders, to a successor in certain circumstances provided that all the liabilities and obligations of the Guarantor as principal obligor under the Guarantee are included in the transfer.

9.10 No limitation on Issuer or Guarantor issuing further securities

The Issuer is a special purpose vehicle set up for the sole purpose of issuing the Notes and, as such and as a result of the expected provisions of Solvency II as regards regulatory capital issuance, the Issuer is not expected to incur any liabilities other than in connection with the issuance of the Notes and its ongoing general corporate administration.

However, there is no contractual restriction on the Issuer creating liabilities ranking equally with the Notes and no restriction on the amount of securities which the Guarantor may issue or guarantee, which securities or guarantees rank senior to, or *pari passu* with, the Guarantee. The issue or guarantee of any such securities may reduce the amount recoverable by Noteholders on a winding-up of the Guarantor. In particular, the claims of Noteholders under the Guarantee shall rank junior to the claims of Senior Creditors. Accordingly, in the winding-up of the Guarantor and after payment of the claims of its respective senior ranking creditors, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders under the Guarantee.

9.11 The Guarantor is a holding company

The Guarantor is the parent company of the Insurance Group. The operations of the Insurance Group are conducted by the operating subsidiaries of the Guarantor. Accordingly, creditors of a subsidiary would have to be paid in full before sums would be available to the shareholders of that subsidiary and thereafter (by the payment of dividends to the Guarantor) to Noteholders in respect of any payment obligations of the Guarantor under the Notes or the Guarantee.

9.12 Change of law

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

9.13 Integral multiples

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

10 Risks related to the Market generally

10.1 The secondary market generally

Although application has been made to admit the Notes to trading on the Market, the Notes have no established trading market and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

10.2 Exchange rate risks and exchange controls

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

10.3 Fixed rate reset notes are exposed to specific market risks

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

In addition, the reset of the fixed interest rate in accordance with Condition 5 may also affect the market value of the Notes in the secondary market and, following any such reset of the fixed interest rate, the new fixed interest rate on the Notes may be lower than the previous fixed interest rate on the Notes, thereby reducing the amount of interest payable to Noteholders.

10.4 Payments on the Notes may be subject to U.S. Foreign Account Tax Compliance Act Withholding

Whilst the Notes are in global form and held within Euroclear and Clearstream, Luxembourg (together, the "**ICSDs**"), in all but the most remote circumstances, it is not expected that

FATCA will affect the amount of any payment received by the ICSDs (see "*Taxation – U.S. Foreign Account Tax Compliance Withholding*"). However, FATCA may affect payments made to custodians or intermediaries (including any clearing system other than Euroclear or Clearstream, Luxembourg) in the payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA, including any legislation intended to implement an intergovernmental agreement entered into pursuant to FATCA, if applicable), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the ICSDs (as registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the ICSDs and custodians or intermediaries.

10.5 Credit ratings may not reflect all risks

The Notes have been rated BBB+ by S&P and Baa1 by Moody's. S&P and Moody's are each credit rating agencies established in the European Union and registered under Regulation (EC) No 1060/2009 and each of them is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Conversely, a lowering of or withdrawal of a credit rating may have a materially adverse effect on the liquidity and market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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

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

While the Notes are represented by the Global Certificate, the Issuer or, as appropriate, the Guarantor, will discharge its payment obligations under the Notes by making payments to or to the order of the registered holder as nominee for the common depositary for Euroclear or Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer or, as appropriate, the Guarantor,

has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

10.7 Legal investment considerations may restrict certain investments

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

10.8 EU Savings Directive

EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

TERMS AND CONDITIONS OF THE NOTES

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

The issue of the £400,000,000 6.125 per cent. Fixed Rate Reset Callable Guaranteed Subordinated Notes due 2043 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 19 and forming a single series with the Notes) was (save in respect of any such further notes) authorised by a resolution of the Board of Directors of RL Finance Bonds No. 2 plc (the "**Issuer**") passed on 12 November 2013. The subordinated guarantee of the Notes was authorised by a resolution of the Board of Directors of The Royal London Mutual Insurance Society Limited (the "**Guarantor**") passed on 9 October 2013 and a resolution of a committee of the Board of Directors of the Guarantor passed on 12 November 2013. The Notes are constituted by a trust deed (the "**Trust Deed**") dated 29 November 2013 between the Issuer, the Guarantor and HSBC Corporate Trustee Company (UK) Limited (the "**Trustee**", which expression shall include all persons for the time being and from time to time appointed as the trustee or trustees under the Trust Deed) as trustee in respect of the Notes. These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and of the agency agreement (the "**Agency Agreement**") dated 29 November 2013 relating to the Notes between the Issuer, the Guarantor, the Trustee and HSBC Bank plc as registrar (the "**Registrar**", which expression shall include any successor thereto), as transfer agent (the "**Transfer Agent**", which expression shall include any successor thereto and any additional transfer agents appointed thereunder) and as initial principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor thereto, and, together with any further paying agents appointed thereunder, the "**Paying Agents**", which expression shall include any successors thereto) are available for inspection during usual business hours at the principal office of the Trustee (presently at 8 Canada Square, London E14 5HQ, United Kingdom) and at the specified offices of the Principal Paying Agent, the Registrar and any Transfer Agent. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 Form, Denomination and Title

(a) Form and Denomination

The Notes are issued in registered form in principal amounts of £100,000 and integral multiples of £1,000 in excess thereof (referred to as the "**principal amount**" of a Note, and references in these Conditions to "**principal**" in relation to a Note shall be construed accordingly) without coupons attached. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer (failing which the Guarantor) will procure to be kept by the Registrar (the "**Register**") on which shall be entered the names, addresses and account details of Noteholders and the particulars of the Notes held by them and of all transfers and repayments of Notes.

(b) *Title*

Title to the Notes passes only by transfer and registration in the Register. The holder of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**holder**" means the person against whose name a Note is registered in the Register (or, in the case of joint holders, the first named thereof). Each Noteholder shall be entitled to receive only one Certificate in respect of its entire holding of Notes.

2 Transfers of Notes and Issue of Certificates

(a) *Transfers*

Subject to Condition 2(*d*) and (*e*), each Note may be transferred (in whole or in part, subject to such transfer and any remainder being in a minimum amount of £100,000) by depositing the Certificate issued in respect of that Note, together with the form of transfer in respect thereof duly completed, executed and (where applicable) stamped, at the specified office of the Registrar or a Transfer Agent.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons not exceeding four in number) or a nominee.

(b) *Delivery of new Certificates*

Each new Certificate to be issued upon a transfer of Notes will, within five Business Days of receipt by the Registrar or the relevant Transfer Agent of the duly completed, executed and (where applicable) stamped form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note (but free of charge to the Noteholder) to the address specified in the form of transfer. The form of transfer shall be available at the specified offices of the Transfer Agents.

Except in the limited circumstances described in this Prospectus (see "Summary of Provisions relating to the Notes whilst in Global Form — Exchange"), owners of book-entry interests in the Notes will not be entitled to receive physical delivery of Certificates.

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

(c) *Formalities free of charge*

Registration of transfer of any Notes will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon (i) payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer and (ii) the relevant Transfer Agent being satisfied with the documents of title and/or the identity of the person making the application.

(d) *Closed periods*

No Noteholder may require the transfer of a Note (or part thereof) to be registered during the period of 15 days ending on the due date for any payment of principal or interest or during the period following delivery of a notice of a voluntary payment of Arrears of Interest in accordance with Condition 6(*e*) and Condition 14 and ending on the date referred to in such notice as having been fixed for such payment of Arrears of Interest.

(e) *Regulations*

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

3 Status of the Notes, etc.

(a) *Status*

The Notes constitute direct and unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders in any Issuer Winding-Up are as described in the Trust Deed and this Condition 3.

(b) *Issuer Winding-Up*

(i) If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders may claim or prove in such Issuer Winding-Up. If and to the extent that the amount that the Trustee or the Noteholders could recover in such Issuer Winding-Up (including any damages awarded for breach of any obligations thereunder) would exceed the amount per Note that would have been paid in respect of such Note in such Guarantor Winding-Up (had the Note been a subordinated obligation of the Guarantor for an amount equal to the relevant Guaranteed Amounts and ranking *pari passu* with the Guarantee), then the Trustee and the Noteholders shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such amounts and the right thereto to the Guarantor.

(ii) If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring, the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders (in each case in relation to any amount which they are entitled to receive in such Issuer Winding-Up in respect of, or arising under, the Notes and the Trust Deed (including any damages awarded for breach of any obligations thereunder)) shall, without the need for any further step or action on the part of the Trustee or Noteholders, assign (and be treated as having assigned) irrevocably such amounts and the right thereto to the Guarantor as consideration for the Guarantor's agreement to assume, or procure the assumption by a Subsidiary of the Guarantor of, the obligations of the Issuer pursuant to, and in accordance with, Condition 4(*c*) and irrevocably to have authorised and directed the

Issuer (or its liquidator or administrator, as appropriate) to make the payment of any such amounts directly to the Guarantor.

This Condition 3(*b*)(ii) is without prejudice to any claim which the Trustee and the Noteholders may have, in such circumstances, against the Guarantor under Condition 4 or against any Substituted Obligor substituted for the Issuer pursuant to Condition 15.

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not occurred or is not occurring, the Guarantor shall assume, or procure the assumption of, the obligations of the Issuer under the Notes and the Trust Deed.

(iii) If, in the circumstances contemplated in Condition 3(*b*), any payment is made to the Trustee (other than payments made to the Trustee in its personal capacity under the Trust Deed) and/or the Noteholders in respect of, or arising under, the Notes and/or the Trust Deed by the liquidator or the administrator (as applicable) of the Issuer, such amount shall, in addition to the assignments set out in Conditions 3(*b*)(i) and (ii), reduce *pro tanto* the amounts payable by the Guarantor under the Guarantee and/or, as appropriate, any Substituted Obligor substituted for the Issuer pursuant to Conditions 4(*c*) and 15 (save to the extent such amounts are subsequently paid by the Trustee or, as appropriate, the Noteholders to the Issuer or its liquidator or, as appropriate, administrator in accordance with Condition 3(*d*)).

If, in the circumstances contemplated in this Condition 3(*b*), any payment is made to the Trustee (other than payments made to the Trustee in its personal capacity under the Trust Deed) and/or the Noteholders in respect of, or arising under, the Guarantee by the liquidator or the administrator (as applicable) of the Guarantor, such amount shall, in addition to the assignments set out in Conditions 3(*b*)(i) and (ii), reduce *pro tanto* the amounts payable by the Issuer under the Notes and the Trust Deed (save to the extent such amounts are subsequently paid by the Trustee or, as appropriate, the Noteholders to the Guarantor or its liquidator or, as appropriate, administrator in accordance with Condition 3(*d*)).

(iv) Nothing in the Trust Deed or these Conditions shall affect or prejudice the payment of the costs, fees, charges, expenses, liabilities or remuneration of the Trustee under the Trust Deed or the rights and remedies of the Trustee in respect thereof.

(c) Solvency Condition

Other than in circumstances where a Guarantor Winding-Up has occurred or is occurring (but subject to Condition 3(*b*)(iv)), all payments under or arising from (including any damages awarded for breach of any obligations under) the Notes or the Trust Deed shall be conditional upon the Guarantor being solvent at the time for payment by the Issuer or, as appropriate, the Guarantor, and no amount shall be payable under or arising from the Notes or the Trust Deed (including, without limitation, the Guarantee) unless and until such time as the Issuer or, as appropriate, the Guarantor could make such payment and the Guarantor would still be solvent immediately thereafter (the "**Solvency Condition**").

For the purposes of this Condition 3(*c*), the Guarantor will be solvent if (i) it is able to pay its debts owed to Senior Creditors and Parity Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than Liabilities to persons in their capacity as Junior Creditors). A certificate as to the solvency or lack thereof of the Guarantor signed by two Directors of the Guarantor or, if there is a winding-up or administration of the Guarantor, the liquidator or, as the case may be,

the administrator of the Guarantor shall (in the absence of manifest error) be treated and accepted by the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and shall be binding on all such persons. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(d) *Set-off, etc.*

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

4 Guarantee

(a) *Status*

The Guarantor has (subject as provided in Conditions 3(*c*), 4(*b*), 6(*a*), 6(*b*), 6(*e*) and 8(*b*)) in the Trust Deed guaranteed on the terms set out therein the due and punctual payment of all principal, interest, Arrears of Interest and other sums from time to time which are due and payable in respect of the Notes or under, or pursuant to, the Trust Deed ("**Guaranteed Amounts**"). The obligations of the Guarantor under such guarantee (including those referred to in Condition 4(*c*)) (the "**Guarantee**") constitute direct, unsecured and subordinated obligations of the Guarantor.

(b) *Subordination*

If:

(i) at any time an order is made, or an effective resolution is passed, for the winding-up of the Guarantor (except, in any such case, (a) a winding-up following the transfer of all its liabilities and obligations as principal obligor under the Guarantee to a transferee in connection with a transfer of its business pursuant to Condition 17 or (b) a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Guarantor of a successor in business (as defined in Condition 22) of the Guarantor, the terms of which reconstruction, amalgamation or substitution (A) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (B) do not provide that the Notes or any amount in respect thereof (including under the Guarantee) shall thereby become payable); or

(ii) an administrator of the Guarantor is appointed and such administrator gives notice that it intends to declare and distribute a dividend or other distribution of the assets of the Guarantor,

(the events in Conditions (*b*)(i) and (*b*)(ii) each being a "**Guarantor Winding-Up**"), the rights and claims of the Trustee (on behalf of the Noteholders but not the rights and claims of the Trustee in its personal capacity under the Trust Deed which shall not be subordinated) and the Noteholders against the Guarantor in relation to Guaranteed Amounts (including, without limitation, any damages awarded for breach of any obligations under the Notes and the Trust Deed) will be subordinated in the manner provided in the Trust Deed to the claims of all Senior Creditors, but shall rank:

(A) at least *pari passu* with all claims of holders of (i) all other subordinated obligations of the Guarantor which constitute, and all claims relating to a guarantee of, or other like or similar undertaking or arrangement given or undertaken by the Guarantor in respect of, any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Lower Tier 2 Capital (issued prior to Solvency II Implementation) including, without limitation, by virtue of the operation of any grandfathering provisions under any Relevant Rules or Tier 2 Capital (issued on or after Solvency II Implementation) and (ii) all obligations which rank, or are expressed to rank, *pari passu* therewith (together, "**Parity Obligations**"); and

(B) in priority to (a) the claims of holders of (i) any subordinated obligations of the Guarantor which rank, or are expressed to rank, junior to the Guarantee, (ii) all obligations of the Guarantor which constitute, and all claims relating to a guarantee of, or other like or similar undertaking or arrangement given or undertaken by the Guarantor in respect of, any obligations of any other person which constitute, or (in either case) would but for any applicable limitation on the amount of such capital constitute, Upper Tier 2 Capital (issued prior to Solvency II Implementation) or Tier 1 Capital (including, without limitation, in each case by virtue of the operation of any applicable grandfathering provisions under the Relevant Rules) and all obligations which rank, or are expressed to rank, *pari passu* therewith, (iii) the Undated Inter-Company Loan and (b) the claims of members of the Guarantor (under any applicable legislation relating to the winding-up of companies limited by guarantee and/or of insurers) in their capacity as members of the Guarantor (together, the "**Junior Obligations**").

The Guarantor is a company limited by guarantee. Upon the liquidation, winding-up or administration of the Guarantor the liability of each of its members is limited to a contribution of one penny per member.

(c) Obligations of the Guarantor upon an Issuer Winding-Up where no Guarantor Winding-Up has occurred or is occurring

If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not also occurring, the Guarantor shall (as more particularly described in the Trust Deed) assume, or shall procure the assumption by a Subsidiary of the Guarantor of, all of the obligations of the Issuer under the Notes and the Trust Deed as if references in the Notes and the Trust Deed to "the Issuer" were to the Guarantor or the relevant Subsidiary (as the case may be) but provided that the claims of the Trustee (other than in respect of its rights and claims in its personal capacity under the Trust Deed) and the Noteholders against the Guarantor in respect of all payment obligations under the Notes and the Trust Deed shall rank *pari passu* with the Guarantee.

Accordingly, once the Guarantor has assumed, or has procured the assumption by its Subsidiary of, such obligations of the Issuer under the Notes and the Trust Deed, the Guarantor shall have

all of the rights and benefits applicable to the Issuer in the Conditions and the Trust Deed including, without limitation, the Issuer's ability to redeem, vary or substitute the Notes in the circumstances set out in Conditions 8(*d*), 8(*e*) and 8(*f*).

5 Interest

(a) Interest Payments

Each Note bears interest on its principal amount at the applicable Interest Rate from (and including) the Issue Date in accordance with the provisions of this Condition 5.

Subject to Conditions 3(*c*), 5(*c*) and 6, interest shall be payable on the Notes annually in arrear on each Interest Payment Date, in each case as provided in this Condition 5.

(b) Interest Accrual

Interest shall cease to accrue on each Note on the due date for redemption (which due date shall, in the case of deferral of a redemption date in accordance with Condition 8(*b*), be the latest date to which redemption of the Notes is so deferred) unless payment is improperly withheld or refused, in which event interest shall continue to accrue (in each case, both before and after judgment) as provided in the Trust Deed.

(c) Interest Rates

Each Notes bears interest on its principal amount at the rate of 6.125 per cent. per annum (the "**Initial Interest Rate**") from (and including) the Issue Date to (but excluding) the First Call Date.

For each Interest Period which commences on or after the First Call Date, each Note shall bear interest on its principal amount at the applicable Reset Rate.

Where it is necessary to compute an amount of interest payable in respect of any Note for a period that is less than or greater than an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Interest Payment Date.

For the avoidance of doubt, the first Interest Period shall be a long first Interest Period for the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and the amount of interest payable in respect of each £1,000 in principal amount of a Note on the first Interest Payment Date shall be £61.4178.

(d) Determination of Reset Rate

The Principal Paying Agent will, as soon as practicable after 11.00 a.m. (London time) on the date falling one Business Day prior to the Interest Period commencing on the relevant Reset Date determine the applicable Reset Rate and shall promptly notify the Issuer and the Guarantor thereof.

(e) Publication of Reset Rates

Once the Issuer has been notified of the Reset Rate by the Principal Paying Agent in accordance with Condition 5(*d*), the Issuer shall cause notice of the applicable Reset Rate, and the amount

of interest which will be payable per £1,000 in principal amount of a Note on each Interest Payment Date in respect of which the relevant Reset Rate applies, determined in accordance with this Condition 5, to be given to the Trustee (if requested by the Trustee), the Paying Agents, the Noteholders in accordance with Condition 14 and any stock exchange on which the Notes are for the time being listed or admitted to trading, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

(f) *Principal Paying Agent*

If the Principal Paying Agent is unable or unwilling to continue to act as the Principal Paying Agent or fails duly to determine the Reset Rate as provided in Condition 5(*d*), the Issuer and the Guarantor shall forthwith appoint another financial institution in London approved in writing by the Trustee to act as such and make the relevant determination in its place.

If the Issuer is unable to appoint a financial institution to act in place of the Principal Paying Agent, the Trustee or an agent on its behalf shall be entitled to do so and any such determination or calculation shall be deemed to have been made by the Principal Paying Agent. If it shall do so, the Trustee or its agent shall apply the foregoing provisions of this Condition 5 with any necessary consequential amendments, to the extent that, in its opinion, it or its agent can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in the circumstances. All determinations or calculations made or obtained for the purposes of this Condition 5(*f*) by the Trustee or its agent shall (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents and all Noteholders and no liability to the Issuer, the Guarantor or the Noteholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(g) *Determinations of Principal Paying Agent binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 by the Principal Paying Agent, shall (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Principal Paying Agent, the Trustee, the Paying Agents and all Noteholders and no liability to the Noteholders, the Issuer or the Guarantor shall attach to the Principal Paying Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

6 Deferral of Interest

(a) *Optional Deferral of Interest*

Either the Issuer or the Guarantor may elect in respect of any Interest Payment Date, by notice to the Noteholders, the Trustee and the Principal Paying Agent given in accordance with Condition 6(*f*), for payment of the accrued but unpaid interest to that date to be deferred (in whole or in part) for any reason and in such circumstances neither the Issuer nor the Guarantor shall have any obligation to make such payment on that date.

(b) *Mandatory Deferral of Interest*

Payment of interest on the Notes by the Issuer will be mandatorily deferred on each Regulatory Deficiency Interest Deferral Date. The Issuer, failing whom the Guarantor, shall notify the Noteholders, the Trustee and the Principal Paying Agent of any Regulatory Deficiency Interest Deferral Date in accordance with Condition 6(*f*) (provided that failure to make such notification

shall not oblige the Issuer to make payment of such interest, or cause the same to become due and payable, on such date) and neither the Issuer nor the Guarantor shall have any obligation to make such payment on that date.

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

(c) *No default*

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral by the Issuer or the Guarantor of any payment of interest (i) in accordance with Condition 6(*a*), (ii) on a Regulatory Deficiency Interest Deferral Date in accordance with Condition 6(*b*), or (iii) as a result of the application of the Solvency Condition in accordance with Condition 3(*c*) will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate repayment of the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee).

(d) *Arrears of Interest*

Any interest on the Notes not paid on an Interest Payment Date as a result of (i) the exercise by the Issuer or the Guarantor of its discretion to defer such payment of interest pursuant to Condition 6(*a*), (ii) any mandatory deferral of such payment of interest pursuant to Condition 6(*b*) or (iii) the operation of the Solvency Condition in accordance with Condition 3(*c*) shall, to the extent and so long as the same remains unpaid, constitute "**Arrears of Interest**".

Arrears of Interest shall not themselves bear interest.

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

Any Arrears of Interest may (subject to Condition 3(*c*) and to satisfaction of the Regulatory Clearance Condition) be paid by the Issuer in whole or in part at any time upon the expiry of not less than 14 days' notice to such effect given by the Issuer or the Guarantor to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 14 and in any event will become due and payable by the Issuer (subject, in the case of Conditions 6(*e*)(i) and 6(*e*)(iii) below, to satisfaction of the Regulatory Clearance Condition) in whole (and not in part) upon the earliest of the following dates:

(i) the next Interest Payment Date which is not a Regulatory Deficiency Interest Deferral Date (as evidenced by delivery of the certificate referred to in Condition 6(*b*)) and on which a scheduled payment of interest in respect of the Notes is made; or

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

(iii) the date fixed for any redemption or purchase of Notes pursuant to Condition 8 (subject to any deferral of such redemption date pursuant to Condition 8(*b*)) or Condition 12.

(f) Notice of Deferral

The Issuer or, as the case may be, the Guarantor shall notify the Trustee, the Principal Paying Agent and the Noteholders in writing in accordance with Condition 14:

(i) not less than 10 Business Days prior to an Interest Payment Date, if it is an Interest Payment Date in respect of which the Issuer or, as the case may be, the Guarantor elects to defer interest as provided in Condition 6(*a*) above; or

(ii) not less than five Business Days prior to an Interest Payment Date, if that Interest Payment Date is a Regulatory Deficiency Interest Deferral Date, provided that if a Regulatory Deficiency Interest Deferral Event occurs less than five Business Days prior to an Interest Payment Date, the Issuer or, as the case may be, the Guarantor shall give notice of the interest deferral in accordance with Condition 14 as soon as reasonably practicable following the occurrence of such event (and, in either case, such notice shall specify that interest will not be paid because a Regulatory Deficiency Interest Deferral Event has occurred and is continuing or would occur if payment of interest were made on such Interest Payment Date); or

(iii) not later than the relevant Interest Payment Date, if payment of any interest will not become due as a result of a failure to satisfy the Solvency Condition.

7 Payments

(a) Payments in respect of Notes

(i) Payments of principal, interest and Arrears of Interest shall be made on the due date for payment to the persons shown on the Register at the close of business on the date falling 15 days before the due date in respect of such payment. Payment of principal, interest and Arrears of Interest will be made by transfer to the registered account of the relevant Noteholder.

(ii) Payments of principal, interest and Arrears of Interest due at the time of redemption of the Notes will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents.

(iii) For the purposes of this Condition 7, a Noteholder's registered account means the sterling account maintained by or on behalf of it with a bank that processes payments in sterling, details of which appear on the Register at the close of business on the date falling two Business Days before the due date for payment.

(b) Payments subject to applicable laws

Save as provided in Condition 10, payments under the Notes will be subject in all cases to any other applicable fiscal or other laws and regulations or other laws and regulations to which the Issuer or the Guarantor (or their respective Paying Agents) agree to be subject and neither the Issuer nor the Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements.

(c) No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition 7.

(d) *Payment on Business Days*

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

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

(e) *Partial payments*

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

(f) *Agents*

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

(i) a Principal Paying Agent;

(ii) a Registrar; and

(iii) such other agents as may be required by any stock exchange on which the Notes may be listed.

Notice of any termination or appointment and of any changes in specified offices of any of the Agents will be given to the Noteholders promptly by the Issuer or the Guarantor in accordance with Condition 14.

8 Redemption, Substitution, Variation and Purchase

(a) *Redemption at Maturity*

Subject to Conditions 8(*b*) and to the satisfaction of the Solvency Condition and any Relevant Rule relating to such redemption at the relevant time, unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 30 November 2043 (the "**Maturity Date**"), together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the Maturity Date.

(b) *Deferral of redemption date*

(i) No Notes shall be redeemed on the Maturity Date pursuant to Condition 8(*a*) or, prior to the Maturity Date, pursuant to Condition 8(*d*), 8(*e*) or 8(*f*) if a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or would occur if redemption were made pursuant to this Condition 8.

(ii) The Issuer, failing whom the Guarantor, shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 14 no later than five Business Days prior to any

date set for redemption of the Notes if such redemption is to be deferred in accordance with Condition 8(*b*)(i), provided that if a Regulatory Deficiency Redemption Deferral Event occurs less than five Business Days prior to the date set for redemption, the Issuer, failing whom the Guarantor, shall give notice of such deferral in accordance with Condition 14 as soon as reasonably practicable following the occurrence of such event and (provided that failure to make such notification shall not oblige the Issuer to make payment of such amounts, or cause the same to become due and payable, on such date) neither the Issuer nor the Guarantor shall have any obligation to make payment on that date.

(iii) If redemption of the Notes does not occur on the Maturity Date or, as the case may be, the date specified in the notice of redemption by the Issuer under Condition 8(*d*), 8(*e*) or 8(*f*) as a result of Condition 8(*b*)(i) above, the Issuer shall (subject to satisfaction of the Regulatory Clearance Condition and the Solvency Condition) redeem the Notes at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest up to (but excluding) the date fixed for redemption, upon the earliest of:

(1) the date falling 10 Business Days after the date the Regulatory Deficiency Redemption Deferral Event has ceased (unless on such 10th Business Day a further Regulatory Deficiency Redemption Deferral Event has occurred and is continuing or redemption of the Notes on such date would result in a new or further Regulatory Deficiency Redemption Deferral Event occurring, in which case the provisions of Condition 8(*b*)(i) and this Condition 8(*b*)(iii) will apply *mutatis mutandis* to determine the due date for redemption of the Notes); or

(2) the date falling 10 Business Days after the PRA has approved the repayment or redemption of the Notes in the circumstances in which it is permitted to do so under the Relevant Rules; or

(3) the date on which a Guarantor Winding-Up occurs.

(iv) If Condition 8(*b*)(i) does not apply, but the obligations of the Issuer under the Notes to make payment of any principal in relation to the redemption of the Notes are mandatorily deferred as a result of the Solvency Condition not being satisfied at such time, subject to satisfaction of the Regulatory Clearance Condition, such payment shall be made on the 10th Business Day immediately following the day that the Guarantor is solvent for the purposes of Condition 3(*c*) provided that the payment of such principal (together with any accrued but unpaid interest and/or any Arrears of Interest) would not result in the Guarantor ceasing to be solvent for the purposes of Condition 3(*c*). If on the date otherwise fixed for redemption pursuant to this Condition 8(*b*)(iv) a Regulatory Deficiency Redemption Deferral Event has occurred and is continuing, or would occur if such payment were to be made, then such payment shall not be made on such date and Condition 8(*b*)(iii) shall apply *mutatis mutandis* to determine the due date for payment of such principal (together with any accrued but unpaid interest and/or Arrears of Interest).

The Issuer, failing whom the Guarantor, shall notify the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 14 not later than the scheduled date for redemption, if payment of any principal will not become due as a result of the operation of the Solvency Condition.

(v) In addition to any certificate given pursuant to Condition 3(*c*) in relation to the satisfaction or otherwise of the Solvency Condition, a certificate signed by two Directors of the Issuer or the Guarantor confirming that (A) a Regulatory Deficiency Redemption Deferral Event has

occurred and is continuing or would occur if redemption of the Notes were to be made or (B) a Regulatory Deficiency Redemption Deferral Event has ceased to occur and/or redemption of the Notes would not result in a Regulatory Deficiency Redemption Deferral Event occurring or (C) that the PRA has approved the repayment or redemption of the Notes in the circumstances in which it is permitted to do so under the Relevant Rules, shall, in the absence of manifest error, be treated and accepted by the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties as correct and sufficient evidence thereof and shall be binding on all such persons. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(c) *Deferral of redemption not a default*

Notwithstanding any other provision in these Conditions or in the Trust Deed, the deferral of redemption of the Notes in accordance with Condition 3(*c*) or 8(*b*) will not constitute a default by the Issuer or the Guarantor and will not give Noteholders or the Trustee any right to accelerate the Notes or take any enforcement action under the Notes or the Trust Deed (including the Guarantee).

(d) *Redemption at the option of the Issuer*

Subject to Conditions 8(*b*)(i), 8(*b*)(iv) and 8(*h*), the Issuer may, having given not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes, on the First Call Date or on any Interest Payment Date thereafter at their principal amount together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption.

Subject as aforesaid, upon expiry of such notice, the Issuer shall redeem the Notes.

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

Subject to Conditions 8(*b*)(i), 8(*b*)(iv) and 8(*h*), if the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(i) as a result of any change in (or proposed change in), or amendment to (or proposed amendment to), the laws or regulations of a Relevant Jurisdiction (including any treaty to which such Relevant Jurisdiction is a party), or any change (or proposed change in) in the application or official or generally published interpretation of the laws or regulations of a Relevant Jurisdiction (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 official or 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 Notes), which change or amendment becomes (or would become) effective on or after the Issue Date, on the next Interest Payment Date either (a) the Issuer would be required to pay additional amounts as provided or referred to in Condition 10; or (b) the Guarantor in making payment of Guaranteed Amounts would be required to pay such additional amounts; or (c) the payment of interest (or any Guaranteed Amounts in respect of interest) would be treated as a "distribution" for United Kingdom corporation tax purposes or the Issuer or the Guarantor would otherwise not be able to claim a deduction from taxable profits for United Kingdom corporation tax purposes for interest (or any Guaranteed Amounts in respect of interest) payable on the Notes or for a material part of such interest (or Guaranteed Amounts in respect of such interest); or (d) where (A) in respect of the payment of interest (or any Guaranteed Amounts in respect of interest), the Issuer or the

Guarantor, as the case may be, incurs a loss or a non-trading loan relationship deficit for United Kingdom corporation tax purposes in respect of such interest or Guaranteed Amounts in relation to an accounting period; and (B) other companies with which the Issuer or the Guarantor (as the case may be) is grouped for the purpose of group relief from applicable United Kingdom corporation tax have profits chargeable to United Kingdom corporation tax in respect of that accounting period but such loss or deficit is not capable of being surrendered to offset such profits chargeable to United Kingdom corporation tax of such other companies for United Kingdom corporation tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist); and

(ii) the effect of the foregoing cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

the Issuer may at its option (without any requirement for the consent or approval of the Noteholders) and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent, the Registrar and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable) either:

(1) redeem all (but not some only) of the Notes, at any time at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (A) with respect to Conditions 8(*e*)(i)(a) and 8(*e*)(i)(b) above, the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts; (B) with respect to Condition 8(*e*)(i)(c) above, a payment of interest (or Guaranteed Amounts in respect of interest) would be treated as a "distribution" for United Kingdom corporation tax purposes or otherwise not deductible from taxable profits for United Kingdom corporation tax purposes (or a material part of it would not be so deductible), in each case as referred to in Condition 8(*e*)(i)(c) above; or (C) with respect to Condition 8(*e*)(i)(d) above, a payment of interest (or Guaranteed Amounts in respect of interest) would cause a loss or non-trading loan relationship deficit for United Kingdom corporation tax purposes which is not capable of being surrendered as referred to in Condition 8(*e*)(i)(d) above, in each case were a payment in respect of the Notes then due; or

(2) substitute at any time all (but not some only) of the Notes for, or vary at any time the terms of the Notes so that they become or remain, Qualifying Dated Tier 2 Securities, and the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 8(*h*) below and in the definition of "Qualifying Dated Tier 2 Securities") agree to such substitution or variation.

Subject as aforesaid, upon expiry of such notice the Issuer shall either redeem, vary or substitute the Notes, as the case may be.

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

(i) Subject to Conditions 8(*b*)(i), 8(*b*)(iv) and 8(*h*), if a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing, or the Issuer or the Guarantor satisfies the Trustee that, as a result of any change in, or amendment to, or any change in the application or official interpretation of, any applicable ratings methodology, a Ratings Methodology Event will occur within a period of six months, then the Issuer may, having given not less than 30 nor

more than 60 days' notice to the Noteholders in accordance with Condition 14, the Trustee, the Principal Paying Agent and the Registrar, which notice must be given during the Notice Period and (subject as aforesaid) shall be irrevocable, either:

(1) as soon as reasonably practicable (in the case of a Capital Disqualification Event), or on or as soon as reasonably practicable after the later of (a) the occurrence of the Ratings Methodology Event (or the Trustee being satisfied as aforementioned) and (b) the fifth anniversary of the Issue Date (in the case of a Ratings Methodology Event), redeem all (but not some only) of the Notes at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest to (but excluding) the date of redemption; or

(2) at any time substitute all (and not some only) of the Notes for, or vary the terms of the Notes so that they become or remain (A) in the case of a substitution or variation in connection with a Capital Disqualification Event, Qualifying Dated Tier 2 Securities, or (B) in the case of a substitution or variation in connection with a Ratings Methodology Event, Rating Agency Compliant Securities, and in either case the Trustee shall (subject to the receipt by it of the certificates of the Directors referred to in Condition 8(*h*) below, in the definition of "Qualifying Dated Tier 2 Securities" and (in the case of a substitution or variation in connection with a Ratings Methodology Event) in the definition of "Rating Agency Compliant Securities") agree to such substitution or variation.

Subject as aforesaid, upon expiry of such notice the Issuer shall either redeem, vary or substitute the Notes, as the case may be.

(ii) For the purposes of this Condition 8(*f*), "**Notice Period**" means the period commencing on the date on which the relevant Capital Disqualification Event or relevant Ratings Methodology Event (as the case may be) first occurs (or, as applicable, the date on which the Issuer satisfies the Trustee that the same will occur within a period of six months) and ending on the sixty-first day following satisfaction of the Regulatory Clearance Condition in respect of the redemption, substitution or variation which is the subject of the notice to which the Notice Period relates.

(iii) For the purposes of Condition 8(*f*)(ii) above, if a Ratings Methodology Event occurs at any time prior to the fifth anniversary of the Issue Date and the Issuer does not, at that time, elect to substitute or vary the terms of the Notes in accordance with Condition 8(*f*)(i)(2) above, such Ratings Methodology Event shall, for the purposes of determining the Notice Period for exercising the Issuer's option to redeem the Notes following a Ratings Methodology Event under Condition 8(*f*)(i)(1) above, be deemed to have first occurred on the date falling 30 days prior to the fifth anniversary of the Issue Date.

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

Subject to Condition 8(*h*), the Trustee shall (at the expense of the Issuer) use its reasonable endeavours to co-operate with the Issuer and the Guarantor (including, but not limited to, entering into such documents or deeds as may be necessary) to give effect to the substitution or variation of the Notes for or into Qualifying Dated Tier 2 Securities pursuant to Condition 8(*e*) or Qualifying Dated Tier 2 Securities or Rating Agency Compliant Securities (as the case may be) pursuant to Condition 8(*f*) above, provided that the Trustee shall not be obliged to co-operate in any such substitution or variation if the securities into which the Notes are to be substituted or are to be varied or the co-operation in such substitution or variation imposes, in the Trustee's opinion, more onerous obligations upon it or exposes it to liabilities or reduces its protections, in each case as compared with the corresponding

obligations, liabilities or, as appropriate, protections under the Notes. If the Trustee does not so co-operate as provided above, the Issuer or the Guarantor may, subject as provided above, redeem the Notes as provided in this Condition 8.

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists for the purposes of this Condition 8 and will not be responsible to Noteholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance to which this Condition 8 relates, it shall be entitled to assume that no such event or circumstance exists or has arisen.

(h) *Preconditions to redemption, variation, substitution and purchases*

(i) Prior to the publication of any notice of redemption, variation or substitution pursuant to Condition 8(*e*) or 8(*f*), the Issuer, failing whom the Guarantor, shall deliver to the Trustee a certificate signed by two Directors of the Issuer or the Guarantor, as the case may be, stating that either:

(1) one or more of the requirements referred to in Condition 8*(e)*(i) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it; or

(2) a Capital Disqualification Event or a Ratings Methodology Event has occurred and is continuing as at the date of the certificate or, as the case may be, will occur;

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

The Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties. The Trustee shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(ii) In addition, prior to the publication of any notice of redemption before the Maturity Date or any substitution, variation or purchase of the Notes, the Issuer or, as the case may be, the Guarantor will be required to have complied with the Regulatory Clearance Condition and (in the case of any redemption or purchase) be in continued compliance with Regulatory Capital Requirements and the Solvency Condition. A certificate from any two Directors of the Issuer or the Guarantor to the Trustee confirming such compliance shall be conclusive and binding on the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties. The Trustee shall be entitled to accept such certificate as sufficient evidence of such compliance and shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(iii) In addition, prior to any redemption or purchase of the Notes by the Issuer or the Guarantor within five years of the Issue Date, the redemption or purchase of the Notes must be approved by the PRA, in compliance with the Relevant Rules and only made on condition that the Notes are replaced with capital of the same or higher quality. If, following Solvency II Implementation, (on the basis that the Notes are intended to qualify as Tier 2 Capital under Solvency II without the operation of any grandfathering provisions), Solvency II does not require a redemption or purchase within five years of the Issue Date of the Notes to be made

only with the approval of the PRA and/or conditional upon replacement with capital of the same or higher quality, such a redemption or purchase will not require such PRA approval and/or be required to be so replaced but such a redemption or purchase will otherwise be subject to compliance with the Relevant Rules. A certificate from any two Directors of the Issuer or the Guarantor (as applicable) to the Trustee confirming such compliance shall be conclusive and binding on the Issuer, the Guarantor, the Trustee, the Noteholders and all other interested parties. The Trustee shall be entitled to accept such certificate as sufficient evidence of such compliance and shall be entitled to rely absolutely on such certificate without liability to any person and without any obligation to verify or investigate the accuracy thereof.

(i) *Compliance with stock exchange rules*

In connection with any substitution or variation of the Notes in accordance with Condition 8(*e*) or Condition 8(*f*), the Issuer and the Guarantor shall comply with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading.

(j) *Purchases*

Subject to Conditions 8(*h*)(ii) and (iii), the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries may at any time purchase Notes in any manner and at any price. All Notes purchased by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Guarantor may be held, reissued, resold or, at the option of the relevant purchaser, surrendered for cancellation to the Registrar.

(k) *Cancellations*

All Notes redeemed or substituted by the Issuer pursuant to this Condition 8, and all Notes purchased and surrendered for cancellation pursuant to Condition 8(*j*), will forthwith be cancelled. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

9 Restrictions following Deferral of Interest or Principal

(a) During any period beginning on the earlier of (i) the date on which the Issuer or the Guarantor gives notice in accordance with these Conditions or otherwise publicly announces that it intends to defer any forthcoming payment of interest or principal and (ii) the date on which the Issuer or the Guarantor becomes obliged to give notice of such deferral of interest or principal pursuant to and in accordance with these Conditions and, in either case, ending on the date on which the obligation to make payment of all such deferred interest (including any Arrears of Interest) and/or principal is satisfied in full by the Issuer or the Guarantor, as the case may be, in accordance with these Conditions (each a "**Restriction Period**"):

(i) none of the Guarantor, the Board of Directors of the Guarantor nor any committee thereof shall resolve on, or publicly declare, any distribution to members which distribution falls within the Mutual Dividend Arrangements and which would be paid or allocated during the Restriction Period; and

(ii) neither the Issuer nor the Guarantor shall (and the Guarantor shall procure that no Subsidiary of the Guarantor shall) purchase, redeem, cancel, reduce or otherwise acquire (directly or indirectly) any Notes or any Subordinated Obligations, save where (a) the Issuer, the Guarantor or the relevant Subsidiary is not able to avoid such obligation to purchase, redeem, cancel, reduce or otherwise acquire such Notes or the relevant Subordinated Obligations in accordance with their respective terms or (b) the Issuer, the Guarantor or the relevant Subsidiary does so

pursuant to a public cash tender offer or public offer to exchange such Notes or Subordinated Obligations, provided that (in the case of a cash tender offer) the cash amount or (in the case of an offer to exchange) the market value of the exchange consideration and any cash amount payable does not (in either case) exceed an amount equal to the principal amount of the Notes or the Subordinated Obligations (as the case may be) so tendered or exchanged (together with any Arrears of Interest and any accrued but unpaid interest on the Notes or any accrued but unpaid interest on such Subordinated Obligations, as the case may be).

(b) The restriction set out in Condition 9(*a*)(i) shall not apply to:

(i) any Asset Share-based distribution declared in respect of a with-profits policy as contemplated in the relevant PPFM, and any other rights of any policyholder of the Guarantor to receive a contractual benefit under his policy, in the ordinary course of business or any distribution to with-profits policyholders out of the with-profits fund or funds of the Guarantor;

(ii) any payment to members of a distribution which falls within the Mutual Dividend Arrangements but which is resolved upon, publicly declared, paid or allocated prior to the commencement of or following the end of the relevant Restriction Period; or

(iii) any distribution or dividend to members in respect of any instrument or item held directly or indirectly by such members or any of them and which constitutes Tier 1 Capital or Tier 2 Capital.

10 Taxation

(a) Payment without withholding

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

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

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

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

(iv) *Payment to individuals*: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or

any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

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

(b) *Additional Amounts*

Any reference in these Conditions to any amounts payable in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 10 or under any undertakings given in addition to, or in substitution for, this Condition 10 pursuant to the Trust Deed.

11 Prescription

Claims against the Issuer in respect of principal, interest and Arrears of Interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of them. Claims against the Guarantor for payment in respect of Guaranteed Amounts will become prescribed unless made within 10 years (in the case of Guaranteed Amounts relating to principal) or five years (in the case of Guaranteed Amounts relating to interest or Arrears of Interest) from the Relevant Date in respect of them.

12 Events of Default

(a) *Right to institute and/or prove in a winding-up*

The right to institute and/or prove in winding-up proceedings in respect of the Issuer is limited to those circumstances where a Guarantor Winding-Up has also occurred or is occurring.

The right to institute winding-up proceedings in respect of the Guarantor is limited to circumstances where a payment under the Guarantee has become due and has not been paid by the Guarantor. For the avoidance of doubt, unless a Guarantor Winding-Up has occurred, no amount shall be due from the Guarantor in those circumstances where payment of such amount could not be made in compliance with the Solvency Condition or is deferred in accordance with Condition 6(a), 6(b) or 8(b).

(i) *Issuer non-payment*: If (1) neither an Issuer Winding-Up nor a Guarantor Winding-Up has occurred or (2) an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has not also occurred or is not occurring and, in either case, the Issuer is in default in the payment of any interest or of any principal due in respect of the Notes or any of them, then the Trustee and the Noteholders may, in accordance with Condition 3(*b*) and the terms of the Guarantee, but subject also to Conditions 3(*c*), 6(*a*), 6(*b*) and 8(*b*), claim under the Guarantee for such payments due but may take no further or other action to enforce, prove or claim for any payment by the Issuer in respect of the Notes or the Trust Deed.

(ii) *Issuer Winding-Up together with Guarantor Winding-Up*: If an Issuer Winding-Up occurs at any time when a Guarantor Winding-Up has also occurred or is occurring, the Trustee and the Noteholders may claim under the Guarantee for the Guaranteed Amounts and the Trustee at its discretion may, and if so requested by Noteholders of at least one-fifth in principal amount of

the Notes then outstanding or if so directed by an Extraordinary Resolution shall (but in each case subject to it having been indemnified and/or secured and/or pre-funded to its satisfaction):

(x) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at their principal amount, together with any Arrears of Interest and any other accrued and unpaid interest; and

(y) prove in the relevant winding-up or administration of the Issuer and/or the Guarantor (whether in England and Wales or elsewhere) and/or claim in the liquidation of the Issuer and/or the Guarantor (whether in England and Wales or elsewhere), but may take no further or other action to enforce, prove or claim for any payment by the Issuer or the Guarantor in respect of the Notes or the Trust Deed (including, without limitation, the Guarantee).

(iii) *Guarantor non-payment and Guarantor Winding-Up:* If

(A) default is made by the Guarantor for a period of 14 days or more in the payment of any amount due under the Guarantee; or

(B) the Guarantor is in a Guarantor Winding-Up where an Issuer Winding-Up has not occurred or is not occurring,

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

(x) give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and payable at an amount equal to their principal amount together with any Arrears of Interest and any other accrued and unpaid interest; and

(y) in the case of Condition 12(*a*)(iii)(A) above, institute proceedings for the winding-up of the Guarantor in England and Wales (but not elsewhere) and, in the case of Condition 12(*a*)(iii)(A) or (B) above, prove in the winding-up and/or administration of the Guarantor (whether in England and Wales or elsewhere) and/or claim in the liquidation of the Guarantor (whether in England and Wales or elsewhere),

but (in either case) may take no further or other action against either the Issuer or the Guarantor to enforce, prove or claim for any payment due in respect of the Notes or the Trust Deed (including the Guarantee), save as provided in Condition 3(*b*)(iv).

Any claim against the Issuer or, as appropriate, the Guarantor pursuant to this Condition 12(*a*)(iii) for amounts in respect of principal, interest and/or Arrears of Interest or, as the case may be, Guaranteed Amounts, shall be reduced if, and to the extent that, any amounts in respect of the same are first paid by or recovered from the Guarantor or, as appropriate, the Issuer and any claim against the Guarantor or, as appropriate, (and in addition to the assignments set out in Conditions 3(*b*)(i) and (ii)), the Issuer for amounts in respect of Guaranteed Amounts or, as appropriate, principal, interest and/or Arrears of Interest shall be reduced if, and to the extent that, any amounts in respect of the same are first paid by or recovered from the Issuer or, as appropriate, the Guarantor.

(b) *Enforcement*

Without prejudice to Condition 12(*a*), the Trustee may at its discretion and without further notice institute such proceedings or take such steps or actions against the Issuer or the Guarantor as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor (as the case may be) under the Trust Deed or the Notes (other than any payment obligation of the Issuer or the Guarantor under or arising from the Notes or the Trust Deed (including the Guarantee), including any payment of damages awarded for breach of any obligations thereunder) but in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings or the taking of such steps or actions, 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 12(*b*) shall, however, prevent the Trustee or the Noteholders from pursuing the remedies to which they are entitled pursuant to Condition 12(*a*).

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 12(*a*) or 12(*b*) above against the Issuer or the Guarantor to enforce the terms of the Trust Deed, the Notes or any other action under or pursuant to the Trust Deed unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(d) *Right of Noteholders*

No Noteholder shall be entitled to proceed directly against the Issuer or the Guarantor or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or the Guarantor 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 Noteholders shall have only such rights against the Issuer and the Guarantor (as appropriate) as those which the Trustee is entitled to exercise as set out in this Condition 12.

(e) *Extent of Noteholders' remedy*

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 12, shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer or the Guarantor of any of its other obligations under or in respect of the Notes or under the Trust Deed.

13 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or other Transfer Agent (or any other place notice of which shall have been given in accordance with Condition 14) upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer or the Guarantor may reasonably require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 Notices

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules

and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

15 Substitution of Issuer or Guarantor

Subject to the Issuer or the Guarantor (as applicable) obtaining the prior approval of the PRA in respect thereof, the Trustee may agree with the Issuer and the Guarantor, without the consent of the Noteholders:

(i) to the substitution of the Guarantor in place of the Issuer as principal debtor under the Trust Deed and the Notes; or

(ii) (subject to the Notes remaining unconditionally and irrevocably guaranteed on a subordinated basis, in accordance with Condition 4, by the Guarantor), to the substitution of a Subsidiary or parent company of the Issuer or its successor in business or the Guarantor or its successor in business in place of the Issuer or any previous substitute under this Condition 15 as principal debtor under the Trust Deed and the Notes; or

(iii) to the substitution of a successor in business to the Guarantor in place of the Guarantor or any previous substitute under this Condition 15,

(each such substitute being hereinafter referred to as the "**Substituted Obligor**"), provided that in each case:

(1) a trust deed or some other form of undertaking, supported by one or more legal opinions, is executed by the Substituted Obligor in a form and manner satisfactory to the Trustee, agreeing to be bound by the terms of the Trust Deed and (in the case of (i) and (ii) above) the Notes, with any consequential amendments which the Trustee may deem appropriate, as fully as if the Substituted Obligor had been named in the Trust Deed and (in the case of (i) and (ii) above) the Notes, as the principal debtor in place of the Issuer (in the case of (i) and (ii) above) or as the guarantor in place of the Guarantor (in the case of (iii) above) (or of any relevant previous Substituted Obligor, as the case may be);

(2) the Substituted Obligor delivers to the Trustee one or more legal opinions addressed to the Trustee, the Issuer and the Guarantor in a form approved by, and provided to, the Trustee that (i) it has obtained all necessary governmental and regulatory approvals and consents necessary for its assumptions of the duties and liabilities as Substituted Obligor under the Trust Deed and (in the case of (i) and (ii) above) the Notes in place of the Issuer or the Guarantor (as applicable) or, as the case may be, any previous Substituted Obligor and (ii) such approvals and consents are at the time of substitution in full force and effect. The Trustee may rely absolutely on such legal opinions without liability to any person and without any obligation to verify or investigate the accuracy thereof;

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

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

(5) if the Substituted Obligor is, or becomes, subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory of the taxing jurisdiction of which (or to any such authority of or in which) the Issuer or (as the case may be) the Guarantor (or any previous Substituted Obligor) is subject generally (the "**Original Territory**"), the Substituted Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 10 with the substitution for the references in that Condition and in the term "Relevant Jurisdiction" as applied in Condition 8(*e*) to the Original Territory of references to the Substituted Territory whereupon the Trust Deed and the Notes will be read accordingly;

(6) the Issuer, the Guarantor and the Substituted Obligor comply with such other requirements as the Trustee considers in its absolute discretion to be appropriate; and

(7) in the case of a substitution of the Guarantor pursuant to Condition 15(iii) only, if the Notes are rated (where such rating was assigned at the request of the Issuer) by one or more credit rating agencies of international standing immediately prior to such substitution, the Notes shall continue to be rated by each such rating agency immediately following such substitution, and the credit ratings assigned to the Notes by each such rating agency immediately following such substitution are to be no less than those assigned to the Notes immediately prior thereto.

16 Meetings of Noteholders, Modification, Waiver and Authorisation

(a) Meetings of Noteholders

Except as provided herein, any modification to these Conditions or any provisions of the Trust Deed will be subject to the Issuer giving at least one month's prior written notice to, and receiving no objection from, the PRA (or such shorter period of notice as the PRA may accept and so long as there is a requirement to give such notice).

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor, the Trustee or Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting two or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which falls within the proviso to paragraph 3 of Schedule 3 to the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be two or more persons present holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Trust Deed also provides that a written resolution executed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes outstanding who would have been entitled to vote upon it if it had been proposed at a meeting at which they were present shall take effect as if it were an Extraordinary Resolution.

The agreement or approval of the Noteholders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in connection with the substitution or

variation of the Notes pursuant to Condition 8(*e*) or 8(*f*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or the Guarantor pursuant to Condition 15.

(b) *Modification, waiver, authorisation and determination*

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed: (i) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders; (ii) which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error; or (iii) which is required in connection with Condition 8(*e*), 8(*f*) or 15. For the avoidance of doubt, such power shall not extend to any such modification as mentioned in the proviso to paragraph 3 of Schedule 3 to the Trust Deed unless required for the substitution or variation of the Notes pursuant to Condition 8(*e*) or 8(*f*) or any consequential amendments to these Conditions and/or the Trust Deed approved by the Trustee in connection with a substitution of the Issuer or the Guarantor pursuant to Condition 15.

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution of obligor), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 10 and/or any undertaking given in addition to, or in substitution for, Condition 10 pursuant to the Trust Deed.

(d) *Notification to the Noteholders*

Any modification, abrogation, waiver, authorisation, determination or substitution pursuant to this Condition 16 shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

17 Transfer of Business of the Guarantor

In connection with any transfer of the whole or a substantial part of its business:

(i) to another body in accordance with Part VII (Control of Business Transfers) of the FSMA (a "**Successor**"); or

(ii) to a single legal entity where such transfer is pursuant to the exercise by the PRA or by any regulatory authority under the Financial Services Compensation Scheme of its powers in connection with any applicable law, rule or regulation,

the Guarantor shall procure that, subject to receiving the prior approval of the PRA, there be included in the transfer, all the liabilities and obligations of the Guarantor as obligor under the Guarantee and references in these Conditions and the Trust Deed to the Guarantor shall be construed accordingly. Any such transfer may

be made without prior approval from the Trustee or the Noteholders, but is without prejudice to any statutory right of the Trustee or the Noteholders to raise objections in respect of any such transfer.

In this Condition 17, "**a substantial part**" means any part which, as at the most recent valuation date by reference to the latest published financial statements of the Guarantor and as certified in writing by two Directors of the Guarantor to the Trustee, represents 50 per cent. or more of liabilities (where the amount of the liabilities of the Guarantor is deemed to mean the same as the technical provisions of the Guarantor, net of reinsurance) relating to policies underwritten by the Guarantor.

18 Indemnification of the Trustee and its Contracting with the Issuer and the Guarantor

(a) Indemnification of the Trustee

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

(b) Trustee contracting with the Issuer and the Guarantor

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

(c) Reports and certificates

The Trust Deed provides that the Trustee may rely and act upon on the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant (including the auditors of the Issuer or the Guarantor), surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Issuer, the Guarantor, the Trustee or otherwise, whether or not addressed to the Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Trustee may also rely and act upon certificates and/or information addressed to it from, or delivered by, the Issuer, the Guarantor, any Substituted Obligor or any one or more directors of the Issuer, the Guarantor or any Substituted Obligor or any of their respective auditors, liquidators, administrators or other insolvency officials. The Trustee will not be responsible to anyone for any liability occasioned by so relying and acting. Any such advice, opinion, information or certificate may be sent or obtained by letter, email, electronic communication or fax and the Trustee shall not be liable for acting in good faith on any advice, opinion, information or certificate purporting to be conveyed by such means even if it contains an error or is not authentic.

19 Further Issues

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

20 Governing Law

The Trust Deed (including the Guarantee) and the Notes, and any non-contractual obligations arising out of or in connection with the Trust Deed (including the Guarantee) and/or the Notes, are governed by, and shall be construed in accordance with, English law.

21 Rights of Third Parties

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

22 Defined Terms

In these Conditions:

"**5 Year Gilt Rate**" means the 5 year note generic bid yield for UK Government Bonds, as determined by the Principal Paying Agent in a commercially reasonable manner on the date falling one Business Day prior to each Reset Date by reference to Bloomberg screen page "GUKG5" (UK Govt Bonds 5 Year Generic Bid Yield) or such other screen page or section as may replace it;

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

"**Agents**" means the Principal Paying Agent, the Registrar and the Transfer Agents or any of them and shall include such other agents appointed from time to time under the Agency Agreement;

"**Arrears of Interest**" has the meaning given in Condition 6(*d*);

"**Asset Share**" means, in relation to a with-profits policy, the accumulation at investment rates of return (including, without limitation, capital appreciation and, where applicable, a contribution from miscellaneous profits) of premiums paid under the relevant with-profits policy less charges for expenses, taxation, the cost of benefits provided under the relevant with-profits policy and any charges for the cost of guarantees and the use of capital;

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

"**Business Day**" means (i) except for the purposes of Conditions 2 and 7(*d*), a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for general business in London, (ii) for the purposes of Condition 2, a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in the city in which the specified office of the Registrar or Transfer Agent with whom a Certificate is deposited in connection with a transfer is located and (iii) for the purpose of Condition 7(*d*), a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in London and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered;

a "**Capital Disqualification Event**" shall be deemed to have occurred if at any time as a result of (a) any change to the Relevant Rules (or change to the interpretation of the Relevant Rules by any court or authority entitled to do so), (b) the implementation of Solvency II or the Relevant Rules implementing Solvency II or (c) any change to Solvency II (or change to the interpretation of Solvency II by any court or authority entitled to do so) following its implementation:

(1) the Notes are fully excluded from counting; or

(2) where such capability to count derives only from transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate, less than the full principal amount (or, if the relevant indebtedness were issued at a price other than par, the principal amount that was capable of counting as at its issue date) of either (a) the Notes outstanding at the relevant time or (b) any indebtedness outstanding at the relevant time and classified in the same category as the Notes by the Insurance Group Supervisor, in either case, for the purposes of any transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate, is capable of counting,

as:

(x) cover for capital requirements or treated as own funds (however such terms might be described in Solvency II or the Relevant Rules) applicable to the Issuer, the Guarantor, the Insurance Group or any insurance or reinsurance undertaking within the Insurance Group whether on a solo, group or consolidated basis; or

(y) Tier 2 Capital for the purposes of the Issuer, the Guarantor, the Insurance Group, or any insurance or reinsurance undertaking within the Insurance Group whether on a solo, group or consolidated basis,

except where in the case of either (x) and/or (y) above such non-qualification is only as a result of any applicable limitation on the amount of such capital (other than where such limitation is applicable by virtue of the transitional or grandfathering provisions under Solvency II or the Relevant Rules, as appropriate);

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

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

"**Directors**" means the directors of the Issuer, the Guarantor or the Substituted Obligor (as the case may be) from time to time;

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

"**Financial Services Compensation Scheme**" means the UK compensation scheme, established under the FSMA, which commenced operations on 1 December 2001 as a fund of last resort to protect deposits and certain other obligations, within prescribed limits, of customers of authorised financial services firms which are unable, or likely to become unable, to meet their obligations in respect thereof, or any successor or replacement scheme;

"**First Call Date**" means 30 November 2023;

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

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

"**Guaranteed Amounts**" has the meaning given in Condition 4(*a*);

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

"**Guarantor Winding-Up**" has the meaning given in Condition 4(*b*);

"**Initial Interest Rate**" has the meaning given in Condition 5(*c*);

"**Initial Margin**" means 3.321 per cent.;

"**Insurance Group**" means the Guarantor (or any successor in business) and its Subsidiaries;

"**Insurance Group Supervisor**" means the PRA or, following Solvency II Implementation, the regulatory authority exercising group supervision over the Insurance Group in accordance with the Solvency II Directive;

"**Interest Payment Date**" means 30 November in each year;

"**Interest Period**" means the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next following Interest Payment Date;

"**Interest Rate**" means the Initial Interest Rate or the relevant Reset Rate, as applicable;

"**Issue Date**" means 29 November 2013;

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

"**Issuer Winding-Up**" means either (i) at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reconstruction, amalgamation or substitution (a) have previously been approved in writing by the Trustee or by an Extraordinary Resolution and (b) do not provide that the Notes or any amount in respect thereof shall thereby become payable); or (ii) an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend or other distribution of the assets of the Issuer;

"**Junior Creditors**" means creditors of the Guarantor whose claims rank, or are expressed to rank, junior to, the claims of the Noteholders including holders of Junior Obligations;

"**Junior Obligations**" has the meaning given in Condition 4(*b*);

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

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

"**Lower Tier 2 Capital**" has the meaning given to it for the purposes of the Relevant Rules from time to time;

"**Maturity Date**" has the meaning given in Condition 8(*a*);

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

"**Mutual Dividend Arrangements**" means the declaration of a discretionary dividend in favour of certain eligible with-profits policyholders and/or members of the Guarantor which allows each such eligible with-profits policyholder or member in its capacity as such to participate in the trading results of the Insurance Group or any other miscellaneous surplus arising in the Guarantor which declaration (i) is at the discretion of the Board of Directors of the Guarantor (or a committee thereof) having assessed *inter alia* the capital required to (a) satisfy the rights and expectations of with-profits policyholders to receive Asset Share-based distributions in respect of their policies and to meet the Guarantor's obligations to treat its customers fairly, (b) satisfy the Guarantor's obligations to its other creditors and (c) support the conduct of the Guarantor's business and (ii) is in addition to, and unconnected with, the rights and expectations of with-profits policyholders to receive an Asset Share-based distribution or allocation declared in respect of a with-profits policy as contemplated in the relevant PPFM of the Guarantor and/or any other rights of a policyholder to receive a contractual benefit under such policyholder's policy in the ordinary course of business;

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

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

"**Notice Period**" has the meaning given in Condition 8(*f*)(ii);

"**Original Territory**" has the meaning given in Condition 15;

"**Parity Creditors**" means creditors of the Guarantor whose claims rank, or are expressed to rank, *pari passu* with the claims of the Noteholders including holders of Parity Obligations;

"**Parity Obligations**" has the meaning given in Condition 4(*b*);

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

"**PPFM**" means each set of Principles and Practices of Financial Management of the Guarantor as applicable in the context setting out how the Guarantor conducts its with-profits business in relation to specified groups of its with-profits policyholders, as amended and updated from time to time;

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

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

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

(a) have terms not materially less favourable to an investor than the terms of the Notes (as reasonably determined by the Guarantor in consultation with an independent investment bank of international standing, and provided that a certification to such effect (including as to the consultation with the independent investment bank and in respect of the matters specified below) signed by two Directors of the Guarantor shall have been delivered to the Trustee (upon which the Trustee shall be entitled to rely absolutely without liability to any person and without any obligation to verify or investigate the accuracy thereof) prior to the issue of the relevant securities), provided that they shall (1) contain terms which comply with then current requirements of the PRA in relation to Tier 2 Capital (or, at any time prior to Solvency II Implementation, Lower Tier 2 Capital); (2) bear at least the same rate of interest from time to time applying to the Notes and preserve the same Interest Payment Dates; (3) if directly issued by the Guarantor rank or, if indirectly issued by the Guarantor benefit from a guarantee which ranks, at least *pari passu* with the ranking of the Guarantee; (4) preserve the obligations of the Issuer and the Guarantor as to redemption of the Notes, including as to the timing of, and amounts payable upon redemption of the Notes; (5) preserve any existing rights under these Conditions to any accrued interest, any Arrears of Interest and any other amounts payable under the Notes which, in each case, has accrued to Noteholders but not been paid; and (6) do not include any provisions which require the write off or write down of any principal amount payable on such securities or conversion of such securities into equity; and

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

"**Rating Agency**" means Standard & Poor's Credit Market Services Europe Limited or any successor thereto;

"**Rating Agency Compliant Securities**" means securities issued directly or indirectly by the Guarantor that are:

(a) Qualifying Dated Tier 2 Securities; and

(b) assigned substantially the same "equity credit" (or such other nomenclature as may be used by the Rating Agency from time to time to describe the degree to which the terms of an instrument are supportive of an issuer's senior obligations) or, at the absolute discretion of the Guarantor, a lower "equity credit" (provided such "equity credit" is still higher than the "equity credit" assigned to the Notes after the occurrence of the Ratings Methodology Event) as that which was assigned by the Rating Agency to the Notes on or around the Issue Date and provided that a certification to such effect signed by two Directors of the Guarantor shall have been delivered to the Trustee prior to the issue of the relevant securities (upon which the Trustee shall be entitled to rely absolutely without liability to any person and without any obligation to verify or investigate the accuracy thereof);

"**Ratings Methodology Event**" will be deemed to occur upon a change in methodology of the Rating Agency (or in the interpretation of such methodology) as a result of which the "equity credit" (or such other nomenclature as may be used by the Rating Agency from time to time to describe the degree to which the terms of an instrument are supportive of an issuer's senior obligations) assigned by the Rating Agency to the Notes is, as notified by the Rating Agency to the Issuer or the Guarantor or as published by the Rating Agency, reduced when compared to the "equity credit" assigned by the Rating Agency to the Notes on or around the Issue Date;

"**Recognised Stock Exchange**" means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 (as amended or re-enacted from time to time);

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

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

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

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

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

"**Regulatory Deficiency Interest Deferral Event**" means (i) any event (including, without limitation, any breach of the Solvency Capital Requirement applicable to the Guarantor, the Insurance Group or any member of the Insurance Group resulting from any event) which under Solvency II and/or under the Relevant Rules would require the Issuer to defer a payment of interest under the Notes or the Guarantor to defer payment of Guaranteed Amounts in respect of interest under the Guarantee (on the basis that the Notes are intended to qualify as Lower Tier 2 Capital (prior to Solvency II Implementation) and as Tier 2 Capital (following Solvency II Implementation and without the operation of any grandfathering provisions)) or (ii) the PRA having notified the Issuer or the Guarantor in writing that it has determined in accordance with the Relevant Rules at such time that the Issuer must defer a payment of interest under the Notes and/or the Guarantor must defer a payment of Guaranteed Amounts in respect of interest under the Guarantee and not having revoked such notification;

"**Regulatory Deficiency Redemption Deferral Event**" means (i) any event (including, without limitation, any breach of the Solvency Capital Requirement applicable to the Guarantor, the Insurance Group or any member of the Insurance Group resulting from any event) which under Solvency II and/or under the Relevant Rules would require the Issuer or the Guarantor to defer or suspend repayment or redemption of (or payment of any Guaranteed Amounts in respect of repayment or redemption of) the Notes (on the basis that the Notes are intended to qualify as Lower Tier 2 Capital (prior to Solvency II Implementation) and as Tier 2 Capital (following Solvency II Implementation without the operation of any grandfathering provisions)) or (ii) the PRA having notified the Issuer or the Guarantor in writing that it has determined in accordance with the Relevant Rules at such time that the Issuer must defer making a payment of principal under the Notes and/or the Guarantor must defer making a payment under the Guarantee of Guaranteed Amounts in respect of a scheduled repayment or redemption of the Notes and not having revoked such notification;

"**Relevant Date**" has the meaning given in Condition 10(*a*);

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

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

"**Reset Date**" means the First Call Date and each fifth anniversary of the First Call Date thereafter;

"**Reset Rate**" means, at any time on or after the First Call Date, the 5 Year Gilt Rate, plus the Initial Margin and plus the Step-Up Margin;

"**Restriction Period**" has the meaning set out in Condition 9(*a*);

"**Senior Creditors**" means:

(a) any policyholders of the Guarantor and, for the avoidance of doubt, the claims of Senior Creditors of the Guarantor who are policyholders shall include (i) all amounts to which any such policyholder would be entitled in its capacity as policyholder under any applicable legislation or rules relating to a winding-up of companies limited by guarantee and/or of insurers generally to reflect any right to receive, or expectation of receiving, policyholder benefits which policyholders may have (including, without limitation, such expectations of policyholders to receive discretionary benefits under with-profits policies as are consistent with the relevant PPFM of the Guarantor and its obligations to treat customers fairly) and (ii) all amounts which the Board of Directors of the Guarantor (or a committee thereof) has resolved prior to a Guarantor Winding-Up shall be distributed to policyholders of the Guarantor under the Mutual Dividend Arrangements but which amounts have not yet been paid or allocated to the relevant policyholders at the time of such Guarantor Winding-Up but excluding therefrom any future distributions under the Mutual Dividend Arrangements that have not been declared at the time of such Guarantor Winding-Up;

(b) creditors of the Guarantor (other than policyholders) who are unsubordinated creditors of the Guarantor; and

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

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

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

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

"**Solvency II Implementation**" means the implementation by the PRA of Solvency II (or any other change in law or any Relevant Rules if such implementation or other change in law or Relevant Rules results in Upper Tier 2 Capital and Lower Tier 2 Capital ceasing to be recognised as distinct tiers of capital) or, if later, the coming into effect of the same with respect to the Guarantor and/or the Insurance Group;

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

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

"**Step-Up Margin**" means 1.0 per cent.;

"**sterling**" or "**£**" means the lawful currency of the United Kingdom from time to time;

"**Subordinated Obligations**" means any Parity Obligations and any Junior Obligations;

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

"**Substituted Obligor**" has the meaning given in Condition 15;

"**Substituted Territory**" has the meaning given in Condition 15;

"**Successor**" has the meaning given in Condition 17;

"**successor in business**" has the meaning, with respect to the Issuer or the Guarantor (as the case may be), given in the Trust Deed;

"**Tier 1 Capital**" has the meaning given to it for the purposes of the Relevant Rules from time to time;

"**Tier 2 Capital**" has the meaning given for the purposes of the Relevant Rules from time to time;

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

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

"**UK Listing Authority**" means the Financial Conduct Authority acting under Part VI of the FSMA;

"**Undated Inter-Company Loan**" means the loan made pursuant to a subordinated loan agreement dated 14 December 2005 between RL Finance Bonds plc (as lender) and the Guarantor (as borrower) pursuant to which the net proceeds from the issue of the £400,000,000 6.125 per cent. Perpetual Cumulative Step-Up Subordinated Guaranteed Notes issued by RL Finance Bonds plc on 14 December 2005 were on-lent to the Guarantor; and

"**Upper Tier 2 Capital**" has the meaning given for the purposes of the Relevant Rules from time to time.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM

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

1 Relationship of Accountholders with Clearing Systems

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

2 Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer, the Guarantor or any of the subsidiaries of the Issuer or the Guarantor will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and shall be duly endorsed (for information purposes only) on the schedule to the Global Certificate.

3 Payments

Payments of principal and interest in respect of Notes represented by the Global Certificate will be made to the registered holder of the Global Certificate. Upon payment of any principal or interest, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer and the Guarantor on the schedule to the Global Certificate.

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

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

4 Meetings

The registered holder of the Global Certificate shall be treated as having one vote in respect of each £1,000 principal amount of Notes represented by the Global Certificate. The Trustee may allow to attend and speak (but not to vote unless such person is a proxy or a representative) at any meeting of Noteholders any accountholder (or the representative of any such person) of a clearing system with an interest in the Notes represented by the Global Certificate on confirmation of entitlement and proof of his identity.

5 Notices

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

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

6 Exchange

Owners of beneficial interests in the Notes in respect of which the Global Certificate is issued will be entitled to have title to the Notes registered in their names and to receive individual Certificates if Euroclear, Clearstream, Luxembourg or any Alternative 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.

In such circumstances, the Issuer will cause sufficient Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholders within 14 days following a request therefor by the registered holder of the Global Certificate. A person with an interest in the Notes represented by the Global Certificate must provide the Registrar with (A) a written order containing instructions and other such information as the Issuer and the Registrar may require to complete, execute and deliver such Certificates; and (B) a certificate to the effect that such person is not transferring its interest in the Global Certificate.

7 Transfer

Notes represented by the Global Certificate will be transferable only in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be).

8 Trustee's Powers

In considering the interests of Noteholders, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (A) have regard to such information as may have been made available to it by or on behalf of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Notes and (B) consider such interests on the basis that such accountholders were the holders of the Notes represented by the Global Certificate.

9 Enforcement

For the purposes of enforcement of the provisions of the Trust Deed, the persons named in a certificate of the holder of the Notes represented by the Global Certificate shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder as if they were themselves the holders of Notes in such principal amounts.

10 Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, then:

(a) approval of a resolution proposed by the Issuer, the Guarantor or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting which is a special quorum resolution), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders whether or not they participated in such Electronic Consent. The Principal Paying Agent shall confirm the result of voting on any Electronic Consent in writing to the Issuer, the Guarantor and the Trustee (in a form satisfactory to the Trustee) (which confirmation may be given by email), specifying (as of the deadline for the Electronic Consent): (i) the outstanding principal amount of the Notes and (ii) the outstanding principal amount of the Notes in respect of which consent to the resolution has been given in accordance with this provision. The Issuer, the Guarantor and the Trustee may rely and act without further enquiry on any such confirmation from the Principal Paying Agent and shall have no liability or responsibility to anyone as a result of such reliance or action. The Trustee shall not be bound to act on any Electronic Consent in the absence of such a confirmation from the Principal Paying Agent in a form satisfactory to it; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer, the Guarantor and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer, the Guarantor and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Guarantor have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. None of the Issuer, the Guarantor or the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

It is intended that the net proceeds of the issuance of the Notes will be on-lent on a subordinated basis by the Issuer to the Guarantor. The Guarantor intends to use the on-loan to fund the purchase of some or all of the £400,000,000 6.125 per cent. Perpetual Cumulative Step-Up Subordinated Guaranteed Notes issued by RL Finance Bonds plc on 14 December 2005 and, to the extent any proceeds remain, for general corporate purposes.

The expenses in connection with the transaction are expected to amount to £5,040.

DESCRIPTION OF THE ISSUER

General

The Issuer was incorporated in England and Wales on 6 November 2013 under the Companies Act 2006 (as amended) and registered in England and Wales with registered number 8764613.

The registered office of the Issuer is at 55 Gracechurch Street, London EC3V 0RL and its telephone number is 08450 502020. The Issuer has issued 50,000 ordinary shares which are all one quarter paid up. The issued ordinary shares are held directly by the Guarantor.

The Issuer is a direct wholly-owned subsidiary of the Guarantor. The Issuer is a special purpose vehicle established for the purpose of issuing the Notes and to provide finance to the Guarantor.

The ability of the Issuer to pay interest under the Notes will be dependent on the ability of the Guarantor to make payments under the on-loan referred to under "*Use of Proceeds*" above.

Directors

Name	**Function**
Kerr Luscombe	Director
Anya O'Reilly	Director
Martin Lewis	Director

The business address of the Directors is 55 Gracechurch Street, London EC3V 0RL.

Kerr Luscombe is also a director of the Guarantor.

There are no potential conflicts of interest between the duties of each of the Directors to the Issuer and his/her private interests or other duties.

Capitalisation

Shareholders' funds:	**Sterling (£)**
Issued 50,000 ordinary shares of £1 each (25p of each of which is paid up)	12,500

Financial Statements

Since the date of its incorporation, the Issuer has not undertaken any operations save in connection with the issue of the Notes and no financial statements have been prepared. The Issuer will produce audited financial statements with a financial year ending on 31 December. The Issuer has appointed PricewaterhouseCoopers LLP as its auditors.

DESCRIPTION OF THE GUARANTOR

Overview

The Group consists of the Guarantor and its subsidiaries (including the Issuer). The Guarantor is a company limited by guarantee and not having share capital, registered in England and Wales with registered number 00099064. The Guarantor was founded in 1861, initially as a friendly society, and became a mutual life insurance company in July 1908. The Guarantor is authorised by the PRA and jointly regulated by the FCA and the PRA. The registered address of the Guarantor is 55 Gracechurch Street, London EC3V 0RL and its telephone number is 08450 502020. The principal legislation under which the Guarantor operates is the Companies Act 2006 (as amended) and regulations made thereunder.

The Group operates principally in the United Kingdom life insurance and pensions market, with approximately 4 million customers and £51.1 billion in funds under management as at 30 June 2013. Following the completion of the acquisition of RLCIS and RLAM (CIS) on 31 July 2013, the Group's customer base was increased by around 2 million and its funds under management was increased by £20.1 billion. Unless otherwise specified, the description of and financial information relating to the Guarantor and/or the Group in this section excludes RLCIS and RLAM (CIS). For further details relating to RLCIS and RLAM (CIS), see "*Acquisition of RLCIS and RLAM (CIS)*" and "*Impact of acquisition of RLCIS and RLAM (CIS)*" below.

The Group offers a wide variety of long-term products, including pensions, life assurance and savings and investments, and acts as an intermediary in distributing non-investment insurance products to its customers. The Group also provides investment management products and services to third party retail and institutional customers.

Products of the Group are distributed principally under the Royal London (including RLAM and RLCIS), Scottish Life, Scottish Provident, Bright Grey and Caledonian Life brands, either directly to customers or through intermediaries such as independent financial advisers ("**IFAs**"). Further details of the business units of the Group are provided below.

Membership of the Guarantor

The Guarantor is a mutual and therefore has no shareholders and no share capital. The Guarantor has historically funded its activities through premiums from policies, fees primarily related to the value of assets under management, investment income and capital gains therefrom.

Voting rights in the Guarantor belong equally to its members, who are customers of the business. However, only some policyholders are members and the rules determining membership of the Guarantor are set out in its articles of association. These articles of association have been amended several times, and the membership rules applicable to a given policy may depend on the date such policy was taken out.

In general, members include customers with a conventional with-profits contract originally issued by the Guarantor or a contract which has the right from inception to be invested, wholly or partly, in the Guarantor's Open With-Profits Fund, but not including any customers holding only contracts transferred into the long-term funds of the Guarantor from Scottish Life Assurance, companies in the United Assurance Group, Phoenix Life Assurance Limited and Royal Liver Assurance Limited. A member holding a relevant with-profits product is entitled to participate in the profits generated by the Guarantor. Upon winding up, any surplus is distributable amongst the members. The management of the Guarantor is vested in the Directors who are subject to election by the members at the annual general meeting of the Guarantor and, subject to

certain exceptions, to re-election at least once every three years thereafter. In recent years, all directors have sought re-election annually.

Organisational structure of the Group

Fund structure

As at the date of this Prospectus, the Guarantor comprised the Royal London Open Fund and a number of closed sub-funds arising from businesses acquired. All new business is written into the Royal London Open Fund.

Surpluses in the closed sub-funds are ultimately for the benefit of the with-profits policyholders in those funds and do not belong to the Royal London Open Fund. Therefore, the value of the surplus in the closed sub-funds is not counted towards the published surplus of the Royal London Open Fund. However, this acts as an additional and potentially significant buffer against the risk of the Royal London Open Fund having to support the closed sub-funds in stressed conditions.

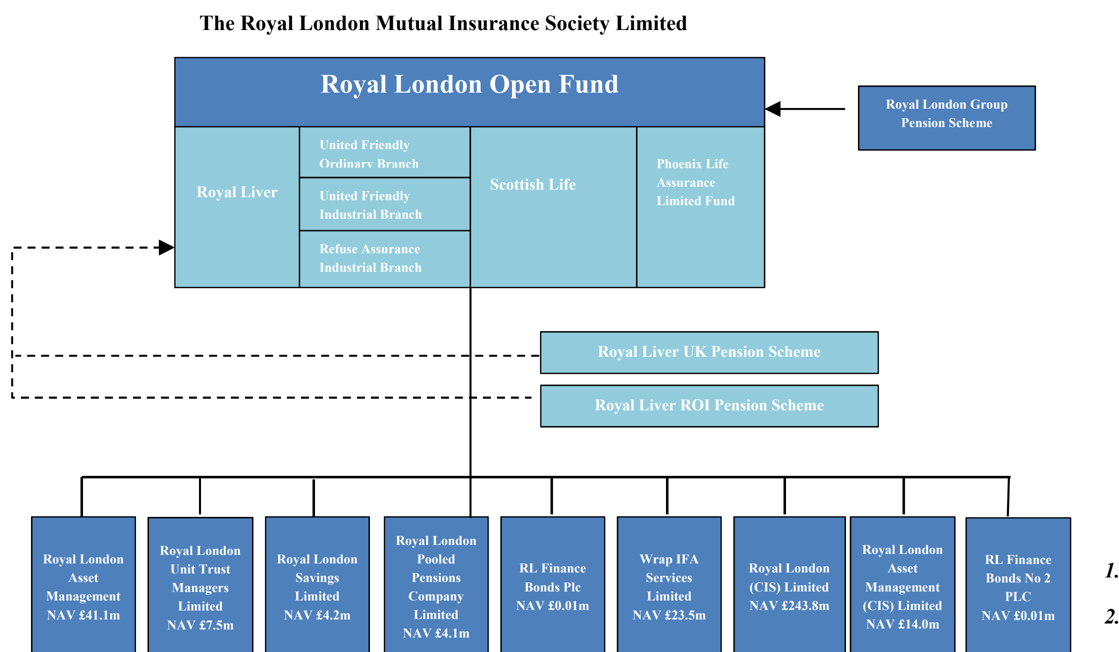
The Royal London Open Fund is committed to providing capital support to the closed sub-funds in the event that a closed sub-fund moves into deficit. Similarly, should the Royal London Open Fund move into deficit, the Scottish Life and Royal Liver closed sub-funds are committed to support it if they can.

Organisational structure

The Guarantor is the ultimate holding company of the Group. The following table shows the principal operating subsidiaries of the Guarantor, being those which are considered to be most likely to have a significant effect on the assessment of the assets and liabilities, financial position, profit and losses and prospects of the Guarantor at the date of this Prospectus:

Name of Company	Country of Incorporation	Percentage owned	Nature of Business
Royal London Asset Management Limited	England	100	Investment management
Royal London Unit Trust Managers Limited	England	100	Unit trust management
Royal London Savings Limited	England	100	ISA management
Royal London Pooled Pensions Company Limited	England	100	Pension fund management
RL Finance Bonds plc	England	100	Finance company
Wrap IFA Services Limited	England	90.1	Wrap platform management
RLCIS	England	100	Life assurance
RLAM (CIS)	England	100	Asset management

The following diagram, in simplified form, shows the fund structure of the Guarantor and the main operating subsidiaries of the Group as at the date of this Prospectus.



Notes:

1. *RL Finance Bonds No. 2 plc – the Issuer, was established on 6 November 2013.*

2. *All other net asset values are as at 30 June 2013.*

3. *The Guarantor owns 90.1 per cent. of the share capital of WRAP IFA Services Limited.*

The Group's history

General

The growth of the Group has encompassed a mixture of organic growth and strategic acquisitions:

- The Group established RLAM in 1988.
- The Group acquired United Assurance Group plc in 2000. United Assurance Group plc was itself a result of a merger between Refuge Assurance plc and United Friendly plc, established in 1858 and 1908 respectively.
- The Group acquired Scottish Life and its subsidiaries (including Scottish Life International) in 2001. Scottish Life was established in Edinburgh in 1881 as a proprietary company. It converted into a mutual company in 1968, before demutualising prior to its acquisition by the Group in 2001.
- The Group launched Bright Grey in 2003, a business specialising in protection insurance.
- The Group acquired Investments Funds Direct Limited and Investment Sciences Limited in 2007, which is the Group's Ascentric business.
- The Group acquired the protection business of Scottish Provident Limited and Scottish Mutual Assurance Limited, Scottish Provident International Life Assurance and Phoenix Life Assurance Limited from Pearl Group Limited in 2008.

- The Group established Royal London 360° in 2008 (launched in 2009) through the merger of Scottish Life International Insurance Company Limited and Scottish Provident International Life Assurance Company Limited.
- The Group acquired Royal Liver Assurance Limited ("**Royal Liver**") and its subsidiaries and the Caledonian Life brand in 2011.
- The Group launched MoneyVista Limited in 2011, an online service that helps customers create and maintain their own financial plan.
- The Group acquired the life and pensions business and asset management businesses of CBG, namely, RLCIS and RLAM (CIS) on 31 July 2013.
- An announcement was made by the Group on 14 November 2013 that it had entered into an agreement with funds advised by independent private equity firm Vitruvian Partners to support a management-led buyout of Royal London 360° and its subsidiaries.

These strategic acquisitions and business developments increased the Group's customer base and enabled it to achieve significant cost synergies on an on-going basis. Other than the business of Royal London 360° and the recent acquisition of RLCIS, the long-term business acquired through these acquisitions was subsequently transferred into the Guarantor. The Guarantor intends to effect a transfer of the CIS LTBF to the Guarantor by way of a court-sanctioned transfer under Part VII of the FSMA.

Recent acquisitions

Acquisition of RLCIS and RLAM (CIS)

Under the SPA, the Guarantor paid £39.5 million for the entities (and their subsidiaries), as adjusted by reference to the net asset value of RLAM (CIS) at the time of completion. The SPA also contains an obligation on the Guarantor to pay deferred consideration of £180 million to CBG. The payment of this deferred consideration is contingent on certain conditions being met, in particular that assets of the same value currently held within RLCIS become available to the Guarantor.

The acquisition completed on 31 July 2013, and immediately after completion the entities acquired were renamed Royal London (CIS) Limited and Royal London Asset Management (CIS) Limited, respectively. As a result of the acquisition:

- assets under management of the Group were increased by £20.1 billion from £52.4 billion to £72.5 billion;
- the number of customers of the Group increased from approximately 4 million to approximately 6 million. RLCIS and RLAM (CIS) customers will not have the right to become members of the Guarantor;
- the number of policies of the Group increased from approximately 6.8 million to approximately 10.3 million; and
- the number of members of the Group remain unchanged at 0.5 million.

As part of the acquisition, the Guarantor undertook a detailed due diligence exercise over a period of time. Based upon its due diligence and on the basis of the financial statements of RLCIS, which showed a regulatory capital surplus of £1,205 million as at 31 December 2012, it was concluded that the likelihood of the CIS LTBF requiring capital support from the Royal London main fund was remote. On the basis of the

unaudited financial information of RLCIS as at 30 June 2013, the regulatory capital surplus was stated as £1,170 million and hence there is no change in this view.

RLCIS's historic general insurance business

The principal activity of RLCIS is to provide life insurance, pensions and savings products and solutions. Historically, RLCIS was a composite insurer, writing both life and general insurance business, but it stopped writing general insurance in January 2006, while it was still part of CBG. RLCIS contains some residual general insurance business written by it prior to that date, which is primarily reassured to The Co-operative Banking Group's general insurance business, CIS General Insurance Limited ("**CISGIL**") under an indemnity agreement entered into at the time. CISGIL is also responsible for the administration of the general insurance business of RLCIS under that agreement.

The Guarantor has undertaken in the SPA to provide the minimum assets required by the PRA Handbook for RLCIS to meet its minimum regulatory capital requirements (or such future minimum regulatory capital requirement as may apply from time to time) in respect of the general insurance business of RLCIS plus 10 per cent. of such amount. RLCIS is undertaking a process to transfer its historic general insurance business to CISGIL by way of a court-sanctioned transfer under Part VII of the FSMA. Under the SPA, The Co-operative Banking Group agreed to indemnify the Guarantor for all reasonable costs, expenses and fees incurred by the Guarantor arising from, or in connection with, the transfer of the general insurance business.

Transitional services agreement

As part of the acquisition, the Guarantor and The Co-operative Banking Group entered into a transitional services agreement (the "**TSA**") whereby The Co-operative Banking Group has agreed to provide operational support to RLCIS and RLAM (CIS) until they are integrated into the Group. It is envisaged that the TSA will last for up to two years.

Acquisition of Royal Liver

On 1 July 2011, the Group acquired the entire long-term business and all the assets and liabilities of Royal Liver by way of a transfer undertaken in accordance with Section 86 of, and Schedule 15 to, the Friendly Societies Act 1992. As part of the transaction, the Group acquired the Caledonian Life protection business based in the Republic of Ireland.

The Royal Liver transaction increased the Group's funds under management by £2.3 billion and its customer base by around 0.8 million.

As part of the transaction, the assets and liabilities of Royal Liver were placed into a separate closed sub-fund of the Royal London With-Profits Fund called the Royal Liver sub-fund. The Royal Liver business is closed to new business, with the exception of protection contracts written in the Republic of Ireland under the Caledonian brand. All Caledonian business written after 1 July 2011 is written into the Royal London Open Fund.

Under the terms of the transfer, the Royal Liver sub-fund is maintained in accordance with a fixed charging structure for administration and asset management services for an agreed period. The Group is expected to administer this business for less than the agreed fixed charging structure, thereby generating profit in the Royal London Open Fund. A £91m (after tax) one-off gain was reflected in the Group's audited consolidated financial statements for the year ended 31 December 2011.

There was no cash consideration payable in respect of this transfer. However, the Royal London Open Fund is obliged to provide capital support to the Royal Liver sub-fund if it is in deficit, which is therefore a contingent consideration. At the date of acquisition and subsequent reporting dates, the fair value of this contingent consideration was deemed to be £nil, as the possibility of capital support being needed to support the Royal

Liver closed fund in the long-term, having taken any appropriate and available management actions, was considered to be remote.

Royal Liver has been fully integrated into the Group.

Strategy

As the largest mutual life and pensions provider in the UK on a long-term asset basis, the Guarantor's focus is on the interests of its members and other customers. One of the key differentiating factors of the Guarantor is its mutual status, which is core to its strategy.

The Group's vision is to become the UK's most trusted and recommended financial services organisation. The Group's goal is to make the benefit of this continual customer focus real and tangible through:

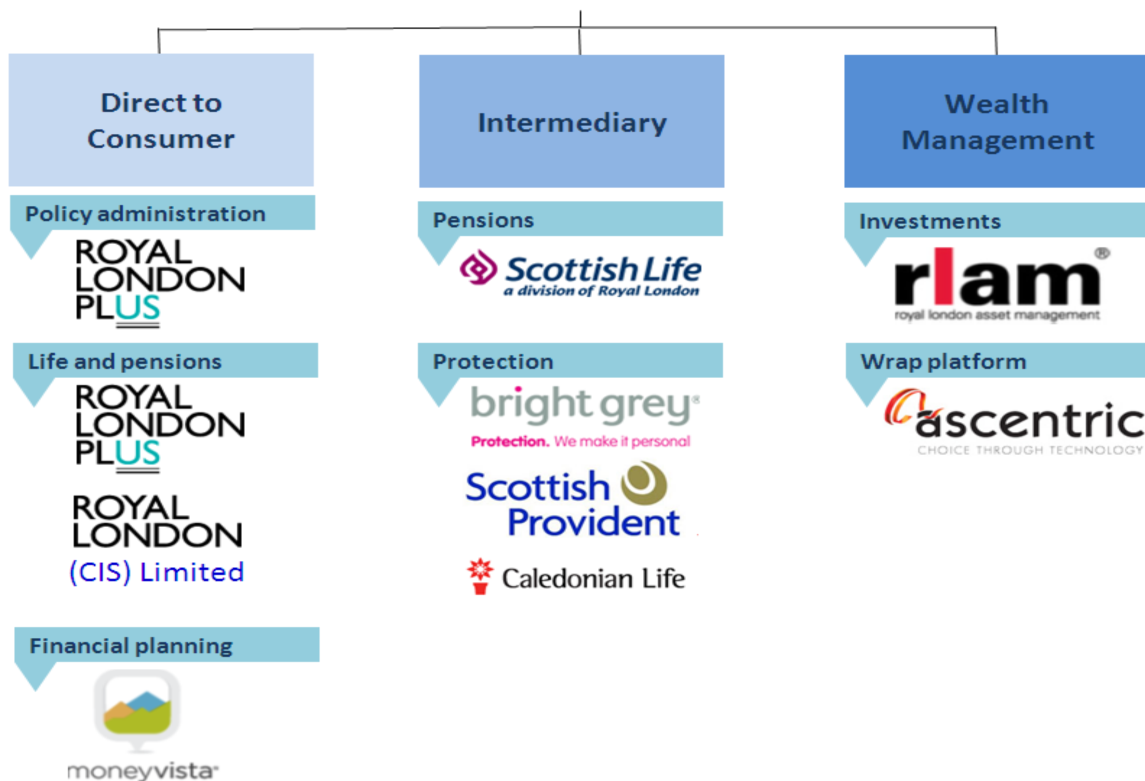
- offering great value for money in its products;
- excellent service;
- a strong investment performance;
- sharing profits with members through the discretionary mutual dividend; and
- offering more to customers and members than its shareholder-owned rivals.

As at the date of this Prospectus, the Board of Directors of the Guarantor (the "**Board**") was of the view that mutuality had served its members well and had no plans to change its corporate structure. Going forward, the Group's future strategy encompasses organic growth and growth by acquisition within the UK and Ireland, in order to increase its scale, efficiency and competitiveness.

Organisational business units

The diagram below sets out the business units of the Group and reflects how the Group's business was structured and managed as at 30 June 2013. With the exceptions of RLAM, RLCIS and MoneyVista Limited, which are subsidiary companies, and Ascentric which is a business unit comprising subsidiary companies, the business units are divisions of the Guarantor.

The Group is currently undergoing a strategic brand review, which may result in future changes and/or consolidation of the current brands in the future.



Distribution

In 2012, the Group redesigned its organisational structure to focus on three key customer segments and the related distribution channels that serve them:

- the consumer businesses focus on the mass market and products and services are sold directly to consumers, including MoneyVista, a free online service designed to help UK consumers take control of their finances;
- the intermediaries businesses focus on the mass affluent segment and solutions are sold via independent distributors such as IFAs; and
- wealth businesses focus on institutional and wholesale wealth management customers.

In commercial terms, the Group expects that expanding its direct-to-consumer distribution model will provide further diversification within the Group's current, predominantly intermediated, distribution model.

Direct to Consumer

Royal London Plus

Royal London Plus specialises in administering the books of policies which it has acquired from insurance companies that are no longer selling new business, known as 'closed books'. It administers approximately 5

million policies for over 2 million customers as at 31 December 2012. This includes former customers of Refuge Assurance, United Friendly, Phoenix Life Assurance Limited, Royal Liver and RLCIS.

In 2012, Royal London Plus finished transferring all Royal Liver operations from Liverpool to Wilmslow. It is now generating significant cost savings and service benefits, thereby realising the synergy gains expected to arise on acquisition, as described in the section entitled "*Acquisition of Royal Liver*" above.

MoneyVista

At the end of 2011, the Group launched MoneyVista, an online service designed to help UK consumers take control of their finances. Users can create and maintain their own long-term financial plan. Free to use, the service builds a plan that shows customers their current financial position and lets them plan for the financial future they and their family want.

The MoneyVista service comes with lots of calculators, videos and guides, as well as access to a panel of experts to answer any questions. The MoneyVista service has been reviewed positively in the media and has had approximately 1.25 million visitors.

Intermediary

Scottish Life

Scottish Life provides a range of pension products and services to both individual customers and to employers with pension schemes and their scheme members, through intermediaries (i.e. IFAs) in the UK. It is the Group's largest intermediary business and, since being acquired by the Group in July 2001, has been a division of the Group specialising in pensions which, on a PVNBP basis, contributed 42 per cent. of the Group's new business in 2012.

Scottish Life's products include:

- individual pensions, through the Pension Portfolio product, which combines a personal pension, a range of self investment options and drawdown functionality, creating a flexible product that can keep pace with clients' changing lifestyle and needs, as they approach retirement; and
- corporate pensions, including propositions for defined contribution customers (our Retirement Solutions product) and the defined benefit market.

Protection businesses

The Group has two UK-based protection brands, Bright Grey and Scottish Provident, which provide protection products through intermediaries. Together, these two business units wrote £482 million of new business in 2012 on a PVNBP basis. The Group aims to grow its share of existing markets and use insight and expertise to gain access to new markets.

Bright Grey

Bright Grey was launched in March 2003 and provides a variety of protection products, including critical illness, term assurance, income protection and unemployment protection.

Its Personal and Business Protection Menu plans include life cover, critical illness cover and both income cover and payment cover for sickness. A key part of its offering is the 'Helping Hand' service which gives customers practical support when they need it most. New business increased to £228 million in 2012 compared to £199 million in 2011 on a PVNBP basis.

Scottish Provident

The Group acquired the Scottish Provident protection business from Pearl Group Limited in 2008, and Scottish Provident is now one of the UK's leading providers of protection cover. It offers a wide range of protection plans for either set term or whole of life cover, to both individuals and businesses. Key products include:

- the self assurance menu plan (covering life cover, critical illness, income protection or unemployment cover);
- Pegasus whole of life plan, which pays out a lump sum that can be used, for example, to provide personal protection, offer financial security for a business or to help fund an inheritance tax liability;
- business protection, offering four main types of cover; key person protection, shareholder protection, partnership protection and loan protection; and
- income protection.

New business increased to £254 million in 2012 on a PVNBP basis, compared to £194 million in 2011.

Caledonian Life

Caledonian Life is the Group's business unit providing protection products to the Republic of Ireland through intermediaries. It was acquired by the Group in July 2011 as part of the Royal Liver transaction. Following an initial revamp of its product range, Caledonian Life had a significant increase in new business sales and supporting brokers in the second half of 2011. During 2012, new business sales of Caledonian Life increased significantly to £32 million on a PVNBP basis, from £7 million in 2011, and generated strong profit margins of 10 per cent. in 2012.

Caledonian Life's products include life term assurance, mortgage protection, business assurance and specified serious illness cover.

Caledonian's share of the Irish protection market has grown from 2.5 per cent. in 2011 to a near 6 per cent. share in 2012. The share of the broker protection market (which excludes bancassurance and direct sales) has also grown, to just under 10 per cent., a top 5 position in the Republic of Ireland, which is up from 4.1 per cent. in 2011.

Royal London 360°

Royal London 360° was the Group's international business. It has built a strong international reputation founded on trust and personal service. Royal London 360° develops investment, savings and protection products and provides bespoke trust solutions. It also offers 'white-labelled' products, working with major distributors both in the UK and internationally.

Based in the offshore financial centre on the Isle of Man, it does business in the Far East, Africa, the Middle East and the UK. Royal London 360° has offices in Hong Kong, Lebanon and Dubai. Royal London 360°'s performance was strong in 2012 with regular premium new business increasing to £114 million from £75 million in 2011. Total new business on a PVNBP basis as at 31 December 2012 was £364 million.

An announcement was made by the Group on 14 November 2013 that it had entered into an agreement with funds advised by independent private equity firm Vitruvian Partners to support a management-led buyout of Royal London 360° and its subsidiaries for an undisclosed sum. This transaction will allow the Group to focus on the development of its core businesses in the UK and the Republic of Ireland.

Wealth Management

Royal London Asset Management

Royal London Asset Management Limited ("**RLAM**") was founded in 1988 and is the specialist fund management company within the Group. It invests on behalf of the Group as well as for a wide range of institutional and wholesale clients. Alongside RLAM, there are two cash management businesses: Royal London Cash Management and Royal London Asset Management Channel Islands. They provide specialist cash management services for a wide range of both onshore and offshore clients.

At the end of June 2013, RLAM managed approximately £49.0 billion of assets, invested in equities, bonds, property and cash. Revenue from external business was £30.0 million in 2012, representing 54 per cent. of RLAM's total revenue. The table below sets out the division of RLAM's total assets under management as at 30 June 2013 by asset allocation and by product type:

Asset allocation (unaudited)	**£**
	(billions)
Fixed income	22.8
Equities	14.7
Cash	6.3
Property	2.6
Other	2.6
Total	**49.0**

Product type (unaudited)	**£**
	(billions)
Pension and other institutional	13.3
Unit Trusts & OEICs (Open-Ended Investment Company) Funds	13.4
Unit-linked life and pension	7.9
With-profits	14.4
Total	**49.0**

RLAM manages £49.0 billion of assets for the Group, while a further £2.1 billion of assets are managed by Royal London 360° as at 30 June 2013.

RLAM aims to maintain its focus on providing high quality investment management for the Group, as well as growing external funds under management.

Royal London Group investments

The Board sets the Group's investment policy and strategy. Day-to-day responsibility for implementation is delegated to RLAM with monitoring procedures in place.

The investment management agreement in place between the Guarantor and RLAM specifies the limits for holdings in certain asset categories at a fund level. Asset allocation and performance benchmarks are set,

which ensure that each fund has an appropriate mix of assets and is not over- or under-exposed to a particular asset category or specific investment. Asset allocations are set with reference to the financial strength of the relevant fund, the outstanding term of the policies in the fund and the level of guarantees present within that fund. The Capital Management Committee monitors the actual asset allocation and performance against benchmark.

The Group's exposure to asset volatility is managed through asset matching and hedging strategies, in order to match the performance of assets closely to underlying liabilities. The following table provides an analysis of the Group's financial investments as at 31 December 2012:

	Group	
	2012	**2011**
	(£m)	
Derivatives		
Unquoted	100	525
Total financial investments classified as held for trading	100	525

	Group	
	2012	**2011**
	(£m)	
Equity securities		
Quoted	11,520	12,445
Unquoted	312	299
	11,832	12,744
Debt and fixed-income securities		
Government bonds	8,386	8,788
Other quoted	6,027	5,983
Loans secured by policies	12	14
Deposits with credit institutions	564	492
Other unquoted	170	155
	15,159	15,432
Other investments		
Unit trusts and other pooled investments	4,628	2,395
Total financial investments designed as FVTPL[1]	31,619	30,571

Note:

[1]. Fair value through profit or loss

Royal London has minimal alternative investment exposure, no direct exposure to asset backed securities and primarily invests in higher graded assets, rated BBB, or above. As at 31 December 2012, 48 per cent. of the

Group's asset portfolio was invested in fixed income investments and cash compared to 50 per cent. as at 31 December 2011.

As at 30 June 2013, the Group's exposure to the sovereign debt of Greece, Ireland, Italy, Portugal and Spain represented less than 1 per cent. of the total investment portfolio (as at 31 December 2012, also less than 1 per cent.).

Included within the Group's government bonds are the following exposures to sovereign debt, shown by country:

	30 June 2013 (unaudited)	**31 December 2012**
	(£m)	
UK	7,229	7,270
Germany	181	310
France	163	193
Ireland	3	3
Italy	32	20
Spain	10	12
Slovenia	13	24
Belgium	38	32
Austria	33	39
Finland	23	2
Holland	68	78
Other Europe	62	26
USA	169	109
Canada	19	22
Japan	70	83
Rest of World	7	12
Total	8,120	8,235

Ascentric

Ascentric provides a web-based service which helps financial advisers to manage their clients' long-term savings. This service is provided to financial advisers through the Ascentric Wrap service and to large distributors and product providers through the Investment Funds Direct Limited white-label solution. Ascentric's products include a taxed account (General Investment Account), ISA, SIPP, Onshore Bond and Offshore Bond. Customers have the opportunity to invest in a wide variety of funds, stocks and shares, bonds, structured products and cash. The Wrap account helps customers manage their finances through online access to their investments with a clear charging structure.

As at 31 December 2012, total assets under administration increased to £5.1 billion from £3.7 billion as at 31 December 2011, and increased further to £6.2 billion as at 30 June 2013.

Discretionary Mutual Dividend

In 2007, the Board decided that it should seek to allocate a proportion of the profits earned on the businesses of the Group as a form of 'mutual dividend' to certain qualifying with-profits policyholders. Any decision by the Board to allocate a mutual dividend is discretionary and will be made on a year-by-year basis depending upon several factors including the level of profit and the strength of the fund.

The Guarantor declared a discretionary mutual dividend of £88 million (after tax) in respect of the financial year ending 31 December 2012 and £88 million (after tax) in respect of the financial year ending 31 December 2011 to relevant with-profits policyholders and allocated it by enhancing asset shares of the relevant with-profits policies.

Asset shares are estimates of the value of individual policies and are determined as an accumulation of premiums received and investment return achieved, including capital appreciation and, in some cases, with a contribution from miscellaneous profits, less any charges for risk benefits, expenses, tax and guarantees. Asset share investigations are carried out annually (or more frequently if appropriate) in order to assist in making bonus declarations.

Capital management

Royal London With-Profits Funds

The fund structure of the Guarantor as at 30 June 2013 is illustrated as follows:

With-Profits Fund	Net Assets	Realistic Available Capital	Equity Backing Ratio
	(£m)		*(%)*
RLM Open	7,335	2,819	60
Scottish Life	2,389	383	21
United Friendly OB	2,196	97	35
Royal Liver	1,720	259	42
United Friendly IB	986	186	63
Phoenix Life Assurance Limited ("**PLAL**")	702	28	38
Refuge Assurance IB	277	58	44

	Total assets and liabilities
	(£m)
RL Open Unit Linked	14,708
RL Open Non Profit	65

The Royal London Open Fund is where all new business is written. The Scottish Life, United Friendly OB, Royal Liver, United Friendly IB, PLAL, Refuge Assurance IB sub-funds are separate With-Profits Funds from the Royal London Open Fund. RLCIS is currently held as a subsidiary of the Group and the Guarantor intends to effect a court-sanctioned transfer of the long-term business of RLCIS under Part VII of the FSMA. Upon completion of that transfer, the closed sub-funds will also include the CIS LTBF.

Self-sufficiency of the closed funds

Surpluses in the closed sub-funds are ultimately for the benefit of the with-profits policyholders in those funds and do not belong to the Royal London Open Fund. Therefore the Group does not count the value of the surplus in the closed sub-funds towards the published surplus of the Royal London Open Fund. However, this acts as an additional and potentially significant buffer against the risk of the Royal London Open Fund having to support the closed sub-funds in stressed conditions.

The Royal London Open Fund has committed to provide capital support to the closed sub-funds in the event that the closed fund has insufficient assets to meet its guaranteed liabilities. Similarly, should the Royal London Open Fund move into deficit, the Group has committed the Scottish Life and Royal Liver closed sub-funds to support it if they can.

One of the Group's key objectives is to manage the capital position of the closed sub-funds so that they are all self-supporting and the surplus in each remains at least sufficient to meet its own capital requirements without unfairly holding back surplus from policyholders who exit. This self-sufficiency is measured on a realistic capital basis. Throughout 2012 and 2013 to date, the closed sub-funds have continued to be self-sufficient with no support required from the Royal London Open Fund.

CIS LTBF

The CIS LTBF is a sub-fund within RLCIS and the Royal London Open Fund has committed to provide capital support in the event that the CIS LTBF is unable to meet its guaranteed liabilities. As a sub-fund, risks are self-contained within the CIS LTBF. As a result, changes in the CIS LTBF's value will not affect Royal London Open Fund policyholders, unless in extreme conditions the value reduces to such an extent that it cannot pay out the amounts guaranteed to its customers. As with the Group's other funds, the Board have approved and implemented a detailed capital management plan for the CIS LTBF in order to manage this fund to be self-sufficient and not require capital support from the Royal London Open Fund. However, in the unlikely event that the CIS LTBF was unable to meet its guaranteed liabilities, the Royal London Open Fund would have to provide capital support until it was restored. Factors that might affect the value of the CIS LTBF include market events such as a change in interest rates, movements in the stock market and changes to solvency or tax regulations, and insurance events such as beneficiaries living longer than expected or problems with a connected company, such as a reinsurer.

Staff pension schemes

The Group operates three funded defined benefit schemes, which are established under separate trusts: the Royal London Group Pension Scheme ("**RLGPS**"), the Royal Liver Assurance Limited Superannuation Fund ("**Royal Liver UK**") and the Royal Liver Assurance Limited (ROI) Superannuation Fund ("**Royal Liver ROI**").

The main scheme for the Group is the RLGPS. Prior to 31 December 2003, the Group operated four principal defined benefit schemes, namely, The Royal London Staff Pension Fund, United Friendly Group Pension Scheme, Scottish Life Officers' Retirement Benefit Scheme and RLGPS. On 31 December 2003, the assets and liabilities of these schemes were transferred to RLGPS which became the sole pension scheme of the

Group at the time. On 1 September 2005, RLGPS was closed to new entrants. The Group has established a defined contribution scheme for new employees joining the Group after that date. The RLGPS pension scheme's net assets as at 31 December 2012 on an IFRS basis was £62m.

As a result of the Royal Liver acquisition in 2011, the Group took responsibility for two further defined benefit pension schemes, namely, Royal Liver UK and Royal Liver ROI. Both schemes were closed prior to completion of the Royal Liver transaction and Royal Liver employees who participated in these schemes stopped earning additional defined benefit pensions with effect from 30 June 2011. As at 31 December 2012, Royal Liver UK had net assets of £31m and Royal Liver ROI had net assets of £25m on an IAS19 basis.

Risk governance structure

The Board is responsible for the Group's system of risk management and internal control, as well as for reviewing its effectiveness. The Group has a formal governance structure of committees to manage risk, reporting to the Board. Risk management is an integral part of the Group's corporate agenda and employees at all levels have risk management responsibilities. The Group's primary objective in undertaking risk management is to ensure that the achievement of the Group's performance and objectives is not undermined by unexpected events and that sufficient capital is maintained. The framework described below, in conjunction with the Individual Capital Assessment ("**ICA**") and the Group risk register, is used to help quantify the capital impact of significant risks.

Risk management

The Group has established committees and procedures for managing risks, including a Board Risk Committee, Executive Risk Committee, Insurance Committee, a Capital Management Committee, Internal Model Governance Committee and Customer Standards Committee, as described below, together with a description of the Group's risk appetite.

Board Risk Committee

The Board Risk Committee is a subcommittee of the Board, providing it with guidance on the risk management of the Group. It has overall responsibility for reviewing the risk management framework and capital management framework, as well as approving the annual risk and compliance plans.

The Committee has a non-executive Chair.

Executive Risk Committee

The role of the Committee is to provide second line challenge to all of the non-financial risks of the Group. In doing this, the Committee aggregates and reports on information from each business area or Group function's Risk & Control Committee. The Executive Risk Committee also maintains and reviews the risk management framework, and seeks approval from the Board Risk Committee for any changes to it.

The Committee is chaired by the Group Chief Risk Officer, and reports to the Board Risk Committee.

Insurance Committee

The role of the Committee is to provide oversight of the Group's long-term insurance management, ensuring that insurance policies and procedures are in place and operating effectively and that the control, co-ordination and monitoring of insurance and reinsurance is adequate and within the Group's risk appetite.

The Committee is chaired by the Chief Executive Officer of the Intermediary division and reports to the Executive Risk Committee.

Capital Management Committee

The capital position of the Group is monitored by the Capital Management Committee. The role of the committee is to advise and support senior management and the Board regarding the Group's capital position, balance sheet, asset allocation benchmarks and investment performance objectives and benchmarks. The committee's role is also to ensure that the Group has in place the necessary processes to identify, manage and report on market, credit and liquidity risks in accordance with the Group's risk appetite and the parameters set by the Board.

This committee is chaired by the Group Finance Director and reports to the Board Risk Committee.

Internal Model Governance Committee

The role of the Committee is to provide detailed governance of the series of models and systems to quantify capital requirements of the Group (the "**Calculation Engine**") by review and challenge of the design, testing and validation of changes, and the quality of documentation and the performance of the Calculation Engine.

The Committee is chaired by the Group Chief Actuary and reports to the Board Risk Committee.

Customer Standards Committee

The Customer Standards Committee reviews and challenges the product and proposition suite across the Group, as well as overseeing conduct risk practises across the firm. The Committee also provides challenge and review to any new proposed product or service.

The Committee is chaired by the Chief Executive Officer of the Consumer division and reports to the Board Risk Committee, a committee of the Board.

Group Risk Appetite

The Group's risk appetite statement sets out the amount of risk that the Group is currently willing to accept, which aligns with its capacity to bear risk. The Board has responsibility for setting the risk appetite for the Group as a whole. It is applied by the use of principles and by the setting of tolerances, limits and authority levels. In 2013, the Board approved the updated Group's risk preferences, which define risks that the Group views as being desirable, neutral, or undesirable. These preferences are currently being reviewed in light of the RLCIS and RLAM (CIS) acquisition. The Board approved updated risk appetite statements for five categories of risk as follows:

Category	Risk Appetite Statement
Capital	The Guarantor will ensure it has sufficient capital in excess of its regulatory requirements to be consistent with at least an AA credit rating. The closed funds will target capital to minimise the probability of requiring support from the open fund whilst distributing surplus to with-profits policyholders in a fair manner. Both available and required capital will be managed as part of this appetite.
Performance	The Guarantor aims to manage its earnings volatility such that profits are within a

Category	Risk Appetite Statement
	defined percentage of plan. The Guarantor will also target optimisation of longer-term value and returns including targeting a minimum internal rate of return on capital on both new business and transactions.
Reputational	The Guarantor is averse to risk exposures that could impact the Group's reputation or brand.
Operational	The Guarantor acknowledges that to be in business a certain level of operational risk needs to be taken. The Guarantor has a low appetite for losses due to operational risk exposure but the impacts of operational risk controls should be commensurate with the scale and the nature of the risks mitigated.
Liquidity	The Guarantor will ensure there is sufficient liquidity to meet our expected short-term cash outflows in extreme but plausible scenarios.

Ratings of the Guarantor and the Notes

The Guarantor is currently rated A2 (stable outlook) by Moody's for financial strength and has a counterparty credit rating of A (stable outlook) from S&P.

The Notes have been rated BBB+ by S&P and Baa1 by Moody's.

The credit ratings of the Guarantor and the Notes referred to and included in this Prospectus have been issued by S&P and Moody's, each of which is established in the European Union and is registered under the CRA Regulation.

Regulatory capital position

Statutory solvency position

Information on the financial position of the Guarantor is contained in the FSA Return. The PRA is required to monitor the financial position of all UK life assurance companies and require each to hold sufficient assets to cover its contractual liabilities together with its prescribed capital requirements.

The Guarantor manages its ongoing financial position in such a way that it will continue to meet these capital requirements under a wide range of business scenarios and investment conditions.

There is no single measure that properly summarises the financial strength of a life assurance company, nor that allows direct comparisons of financial strength of different life assurance companies. This is because valuations of different companies are not on the same basis and the liabilities are not all of the same kind. Nevertheless, one measure often looked at is the CRR Cover Ratio ("**CRR**" being the Capital Resources Requirement). The CRR Cover Ratio represents the ratio of the total capital resources available to meet the CRR.

The Guarantor's capital is reported on the two PRA Pillar I bases:

- the regulatory (Insurance Group Directive) basis, and
- the PRA realistic balance sheet (realistic) basis.

The realistic capital basis underpins the Group's IFRS and European Embedded Value valuations. The Group also monitors its capital on the PRA's Pillar II Internal Capital Assessment (ICA) basis.

The Guarantor's regulatory capital position as at 30 June 2013 and 31 December 2012 is set out in the table below:

	30 June 2013 (unaudited)			**31 December 2012**		
	Open funds	**Closed funds**	**Total**	**Open funds**	**Closed funds**	**Total**
			(£m)			
Capital Resources including upper tier 2 capital	2,946	2,535	5,481	2,799	2,617	5,416
Minimum Capital Requirement (MCR)	(425)	(301)	(726)	(425)	(317)	(742)
Excess Capital over MCR	2,521	2,234	4,755	2,374	2,300	4,674
With-Profits capital component	—	(2,234)	(2,234)	—	(2,300)	(2,300)
Excess capital	2,521	—	2,521	2,374	—	2,374
Capital cover	693%	100%	185%	658%	100%	178%

The Guarantor's available capital increased from £5,416 million as at 31 December 2012 to £5,481 million as at 30 June 2013 and the excess regulatory capital increased from £2,374 million to £2,521 million during the same period.

The available capital of the closed sub-funds is retained within those funds, as it is ultimately for the benefit of the closed sub-fund policyholders. Therefore, only the surplus of the Royal London Open Fund counts towards the Guarantor's capital position.

Realistic balance sheet

The Guarantor is required to produce a realistic balance sheet,. The table below shows the realistic capital position of the Guarantor as at 30 June 2013 and 31 December 2012.

	30 June 2013 (unaudited)			31 December 2012		
	Open funds	Closed funds	Total	Open funds	Closed funds	Total
			(£m)			
Available capital including upper tier 2 capital	2,788	1,011	3,799	2,535	1,045	3,581
Capital required	(28)	—	(28)	(39)	—	(39)
Surplus	2,760	1,011	3,771	2,496	1,045	3,541
Closed fund transfer commitments	—	(1,011)	(1,011)	—	(1,045)	(1,045)
Excess capital	2,760	—	2,760	2,496	—	2,496

The Guarantor's excess surplus realistic capital (the excess of assets over liabilities, as measured by the realistic reporting requirements) has increased from £2,496 million as at 31 December 2012 to £2,760 million as at 30 June 2013.

The realistic balance sheet methodology can be broadly described as placing a market value on both the assets and with-profits liabilities, including both benefits already guaranteed and future discretionary benefits. Additionally, the value of future profits on all acquired in-force long-term business as well as on non-participating business issued by the Guarantor may be included as an asset. With-profits liabilities comprise the with-profits benefits reserve plus the costs of smoothing plus the value of guarantees and options which have been granted to policyholders. The with-profits benefits reserve for a policy is the asset share as described under the section above entitled "*Description of the Guarantor – Discretionary Mutual Dividend*". When calculating these liabilities, allowance has been made for actions that management would be expected to undertake on key assumptions, for example future bonus or investment policy in varying market conditions, in line with the PPFMs for the Royal London Open Fund, the closed sub-funds (United Friendly OB, United Friendly IB, Refuge Assurance IB, Scottish Life, PLAL and Royal Liver sub-funds) and the CIS LTBF.

Impact of acquisition of RLCIS and RLAM (CIS)

RLCIS and RLAM (CIS) have been acquired as wholly-owned subsidiaries of the Group. As at 30 June 2013, RLCIS and RLAM (CIS) had £19.6 billion assets under management, around 2 million customers and around 3.5 million policies in force.

The key financial information for RLCIS and RLAM (CIS) as at 30 June 2013 unaudited was as follows:

	RLCIS[1]
	(£m)
IFRS Income Statement for the 6 months to 30 June 2013 (unaudited):	
Net earned premiums	143.2
Net income	319.5
Net policyholder claims paid and benefits	(472.5)
Loss for the period	(0.4)
IFRS Balance Sheet as at 30 June 2013:	
Financial investments under management	18,409.5
Total Assets	23,848.1
Insurance and participating contract liabilities	17,826.9
Investment contact liabilities	396.1

Note:

[1] Insurance and participating contract liabilities and Total Assets include an estimate of £81.6 million relating to the general insurance reserves and the corresponding reinsurers share of general insurance reserves.

	RLAM (CIS)
IFRS Income Statement for the 6 months to 30 June 2013:	*(£m)*
Revenue	13.0
Profit before taxation	6.4
Net profit for the period	4.9
IFRS Balance Sheet as at 30 June 2013:	
Total Assets	15.6

As a result of this transaction, the Group's IFRS unallocated surplus is expected to have increased by approximately £150 million, representing the expected synergy benefits from the transaction.

As noted above, RLCIS (which holds the CIS LTBF) is currently held as a wholly-owned subsidiary of the Guarantor, who intends to effect a court-sanctioned transfer of the CIS LTBF under Part VII of the FSMA to the Royal London Open Fund in the future. Once the proposed Part VII transfer is completed, further expected synergies are anticipated.

The Group's Pillar I regulatory capital position as at 30 August 2013, after reflecting the impact of the acquisition of RLCIS and RLAM (CIS), together with a comparison of the Group position as at 30 June 2013, before the acquisition, is summarised as follows:

	August 2013 (unaudited)				**June 2013 (unaudited)**		
	Open	**Closed**	**Adjustment[1]**	**Total**	**Open**	**Closed**	**Total**
				(£m)			
Capital Resources including upper tier 2 capital	2,832	2,574	2,273	7,679	2,946	2,535	5,481
Minimum Capital Requirement (MCR)	(434)	(301)	(558)	(1,293)	(425)	(301)	(726)
Excess capital over MCR	2,398	2,273	1,715	6,386	2,521	2,234	4,755
With-Profits capital component	—	(2,273)	(1,715)	(3,988)	—	(2,234)	(2,234)
Excess capital	2,398	—	—	2,398	2,521	—	2,521
Capital cover	653%	100%	n/a	145%	693%	100%	185%

[1] Adjustments required to Royal London's regulatory capital position in respect of its subsidiary RLCIS, as required under IPRU-INS.

It should be noted that the above regulatory capital position does not include the approximately £150 million of synergy benefits mentioned above, as these cannot be recognised on the Pillar I regulatory basis. The August 2013 figures do, however, include a reduction of £200 million in available capital, which primarily reflects the Guarantor's interpretation of the regulatory rules that it is required to recognise a liability for the deferred consideration valued at £180 million but is unable to recognise the associated matching £200 million of assets within RLCIS (90 per cent. to cover the deferred consideration, 10 per cent. accruing to the Guarantor). The available capital is therefore expected to increase by £200 million if and when those assets within RLCIS become available to the Guarantor.

Legal Proceedings

From time to time, the Guarantor and the Group may become involved in threatened or actual legal proceedings relating to claims arising out of its operations in the normal course of business; however, there are currently no material legal proceedings which would have a material adverse effect on the Guarantor's business or the Group.

Regulatory Matters

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

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

Related Party Transactions

Subsidiary companies in the Group perform the administration and investment management activities of the Guarantor. The Guarantor is charged fees for these services under management services agreements and, for business transferred to the Guarantor, in accordance with the appropriate scheme of transfer. The administrative fees incurred by the Guarantor for the years ended 31 December 2012 and 31 December 2011 were £224 million and £198 million, respectively. The investment management fees incurred by the Guarantor for the years ended 31 December 2012 and 31 December 2011 were £15 million and £12 million, respectively.

DIRECTORS OF THE GUARANTOR

The following is a list of directors of the Guarantor and their principal directorships (if any) performed outside the Group which are, or may be, significant with respect to the Guarantor, as at the date of this Prospectus.

Name	Position	Principal outside activities
Rupert Pennant-Rea	Chairman	Economist Group PGI Group Limited Times Newspapers Holdings Limited
Phil Loney	Group Chief Executive	Director of the Association of British Insurers Deputy Chairman of the Association of Financial Mutuals
Kerr Luscombe..........................	Group Finance Director	—
Andrew Carter...........................	Executive Director	—
Jon Macdonald	Group Risk Director	Member of the Institute of Actuaries' risk management executive committee
Andrew Palmer	Non-Executive Director	Non-executive director of Direct Line Insurance Group Member of the Financial Reporting Review Panel
Duncan Ferguson	Senior Independent Director	Non-executive director of Henderson Group Plc Chairman of Guardian With-Profits Committee
Tracey Graham..........................	Non-Executive Director	Non-executive director of RPS Group Plc, Dialight plc and Albemarle and Bond Plc
Kathryn Matthews.....................	Non-Executive Director	Non-executive director of JPMorgan Chase Investment Trust, APERAM SA, Conversus Capital, Rathbone Brothers, Fidelity Asian Values plc and Hermes Fund Managers and Chairman of Montanaro UK Smaller Companies Investment Trust
David Weymouth.......................	Non-Executive Director	Group Chief Risk Officer at RSA Non-executive director of the Financial Services Compensation Scheme and Chairman of Tyrgg-

Name	Position	Principal outside activities
		Hansa Forsakringsaktiebolag (publ)

Certain of the Directors may also be directors of other companies within the Group from time to time. The business address of the directors is 55 Gracechurch Street, London EC3V 0RL.

Conflicts of interest

There are no potential conflicts of interest between the duties of each of the Directors to the Guarantor and his/her private interests or other duties.

Rupert Pennant-Rea, Chairman

Rupert Pennant-Rea was appointed to the Board on 13 December 2012 and was elected as Chairman after the AGM in 2013. Rupert has extensive financial services industry experience. He was chairman of Henderson Group plc and stepped down at its AGM in May 2013. He was deputy governor of the Bank of England from 1993 to 1995, prior to which he spent 16 years with *The Economist*, where he was editor from 1986 to 1993. He was appointed non-executive chairman of the Economist Group in July 2009. His other directorships include PGI Group Limited and Times Newspaper Holdings Limited.

Phil Loney, Group Chief Executive

Phil Loney was appointed to the Board on 1 October 2011, coinciding with his appointment as Chief Executive of the Group. He previously spent eight years at Lloyds Banking Group, most recently as managing director of the Life, Pensions and Investments business. Prior to joining Lloyds Banking Group, Phil held senior management positions with AXA, Norwich Union, CGU and Lloyds Abbey Life, amongst others. He is a director of the Association of British Insurers and Deputy Chairman of the Association of Financial Mutuals.

Kerr Luscombe, Group Finance Director

Kerr Luscombe joined the group in October 2011 and was appointed to the Board on 23 July 2012 as Group Strategy Director prior to taking up the role of Group Finance Director on 1 January 2013. Before joining Royal London he was finance director in a number of organisations, including most recently in the Life, Pensions and Investment business of Lloyds Banking Group. Prior to that he was finance director for the life companies within Santander which became part of the Resolution Group and subsequently the Phoenix Group. He had previously held a number of senior management roles in Abbey National and Santander. Kerr is an actuary and was admitted as a Fellow of the Faculty of Actuaries in 1991.

Andrew Carter, Executive Director

Andrew Carter was appointed to the Board on 2 January 2007. He joined RLAM in September 2001 as Chief Investment Officer and was promoted to Chief Executive Officer in September 2003. In 2012, he was made Chief Executive Officer of Royal London Wealth. Andrew has extensive asset management experience of the major asset classes, beginning his career in investment management in 1983 with Provident Life. Prior to joining Royal London, he held a number of investment management positions at Gartmore from 1987 to 2001.

Jon Macdonald, Group Risk Director

Jon Macdonald was appointed to the Board on 14 December 2012, having joined the Group in November 2012 as Group Risk Director. He was previously group chief risk officer for RSA. He has held a number of senior risk and capital management roles at Prudential, PwC, Aviva, Fox-Pitt Kelton, Swiss Re and Zurich and is a fellow of the Institute of Actuaries. He is a member of the Institute of Actuaries' risk management executive committee.

Andrew Palmer, Non-Executive Director

Andrew Palmer was appointed to the Board on 1 April 2011. Andrew is Chairman of the Audit Committee. He was group finance director of Legal & General Group plc where he also held a number of financial and operational roles in the asset management, insurance and international businesses. He was a Senior Independent Director at SEGRO. He is a non-executive director of Direct Line Insurance Group and a member of the Financial Reporting Review Panel of the Financial Reporting Council.

Duncan Ferguson, Senior Independent Director

Duncan Ferguson was appointed to the Board on 1 April 2010. He is the Senior Independent Director and is Chairman of both the Board Risk Committee and the With-Profits Committee. He has some 40 years' experience in senior management of insurance companies and as a consulting actuary. He was senior partner of Bacon & Woodrow (then B&W Deloitte) from 1994 to 2003. Duncan was also a non-executive director of Halifax from 1994 until it merged with Bank of Scotland in 2001 and then of HBOS Financial Services until 2007. He is currently a non-executive director of Henderson Group plc and is Chairman of the Guardian With-Profits Committee. He was President of the Institute of Actuaries from 1996 to 1998.

Tracey Graham, Non-Executive Director

Tracey Graham was appointed to the Board on 10 March 2013. She was chief executive of Talaris Limited, an international cash management business, from 2005 to 2010 and led the management buyout of that business from De La Rue. Prior to that she was president of Sequoia Voting Systems, customer services director at AXA Insurance plc and held a number of senior positions at HSBC. Tracey is currently non-executive director at RPS Group plc, Dialight plc, and Albemarle and Bond plc, where she chairs their respective remuneration committees.

Kathryn Matthews, Non-Executive Director

Kathryn Matthews was appointed to the Board on 26 June 2012. She chairs the Investment Committee and sits on the Nomination and Remuneration Committees. She was previously Chief Investment Officer for Asia Pacific (excluding Japan) for Fidelity International. Prior to this she held positions at William M Mercer, AXA Investment Managers, Santander Global Advisors and Baring Asset Management. She is also a non-executive director of JPMorgan Chinese Investment Trust, APERAM SA, Montanaro UK Smaller Companies Investment Trust, Rathbone Brothers, Fidelity Asian Values plc and Hermes Fund Managers. In addition, Kathryn has also previously held a non-executive role at Religare Enterprises.

David Weymouth, Non-Executive Director

David Weymouth was appointed to the Board on 1 July 2012 and sits on the Board Risk, Investment and Nomination Committees. David is currently group chief risk officer at RSA, having been group operations

and risk director since he joined RSA in 2007. Prior to this he consulted for a number of major firms and government departments and enjoyed a successful 27-year career at Barclays including the role of group chief information officer. He is a non-executive director of the FCA's Financial Compensation Scheme. He has previously held a number of non-executive roles at the Department of Trade and Industry (Operating Committee), Chordiant Software and the Charities Aid Foundation.

SELECTED INFORMATION FROM 2013 INTERIM FINANCIAL STATEMENTS

The following are extracts of the unaudited consolidated interim financial statements of the Group (excluding RLCIS and RLAM (CIS)) for the period ended 30 June 2013.

Consolidated balance sheet of the Group (excluding RLCIS and RLAM (CIS)) – IFRS basis for the six months ended 30 June 2013

	30 June 2013	31 Dec 2012
		Restated
	(£m)	
ASSETS		
Property, plant and equipment	42	42
Investment property	2,238	2,319
Intangible assets	1,062	1,083
Reinsurers' share of insurance contract liabilities	593	1,159
Pension schemes asset	182	144
Deferred tax asset	109	121
Current tax asset	6	10
Financial assets	—	—
Financial investments	33,212	31,719
Loans and receivables, including insurance receivables	352	277
Cash and cash equivalents	2,804	2,901
Total financial assets	36,368	34,897
Total assets	40,600	39,775
LIABILITIES		
Participating insurance contract liabilities	11,252	11,722
Participating investment contract liabilities	2,015	1,947
Unallocated divisible surplus	2,910	2,668
Non-participating value of in-force business	(1,096)	(963)
	15,081	15,374
Non-participating insurance contract liabilities	3,542	4,069
Non-participating investment contract liabilities	18,840	17,501
	22,382	21,570
Subordinated liabilities	399	398
Payables and other financial liabilities	411	460
Provisions	248	238
Other liabilities	332	322

	30 June 2013	31 Dec 2012
		Restated
	(£m)	
Liability to external unit holders	1,747	1,413
Total liabilities	40,600	39,775

Consolidated statement of profit or loss and other comprehensive income of the Group – IFRS basis for the six months ended 30 June 2013

	30 June 2013 (unaudited)	31 Dec 2012
		Restated
	(£m)	
Revenues		
Gross earned premiums	458	1,087
Amounts paid to reinsurers	(210)	(405)
Net earned premiums	248	682
Fee income from investment and fund management contracts	107	180
Investment return	1,526	3,058
Other operating income	26	31
Total revenues	1,907	3,951
Policyholder benefits and claims		
Claims paid, before reinsurance	849	1,944
Reinsurance recoveries	(120)	(247)
Claims paid, after reinsurance	729	1,697
Decrease in insurance contract liabilities, before reinsurance	(997)	(521)
Reinsurance ceded	566	(116)
Decrease in insurance contract liabilities, after reinsurance	(431)	(637)
Increase in non-participating value of in-force business	(133)	(167)
Increase in investment contract liabilities	1,044	1,808
Total policyholder benefits and claims	1,209	2,701
Operating expenses		
Administrative expenses	224	445

	30 June 2013 (unaudited)	31 Dec 2012
		Restated
	(£m)	
Investment management expenses	68	156
Amortisation charges and impairment losses on acquired PVIF and other intangible assets	37	105
Investment return attributable to external unit holders	124	121
Other operating expenses	7	26
Total operating expenses	460	853
Finance costs	12	30
Result before tax	226	367
Tax charge/(credit)	20	(27)
Transfer to the unallocated divisible surplus	206	394
Profit for the period	—	—
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit pension schemes	(36)	132
Transfer to/(from) the unallocated divisible surplus	36	(132)
Other comprehensive income for the period, net of tax	—	—
Total comprehensive income for the period	—	—

REGULATORY OVERVIEW

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

Overview of UK and other regulation

PRA and FCA

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

The Financial Services Act 2012 (the "**FS Act**") made significant amendments to the FSMA. The main purpose of the FS Act was to provide for the replacement of the FSA by the FCA and the PRA, with effect from 1 April 2013. Since that date, the Guarantor and the Group have been regulated by both the PRA and the FCA and must comply with the rules and guidance of the PRA and FCA under the FSMA (as amended by the FS Act).

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

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

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

Changes have been made to the structure and composition of the former FSA Handbook to accommodate the division of responsibilities between the FCA and PRA. Most provisions in the former FSA Handbook have been adopted (or "designated") by the FCA and PRA into their respective handbooks, according to each regulator's scope and powers.

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

- the ability for the FCA to intervene in order to ban financial products from sale or to ban a firm from selling a widely accepted product if it determines such firm's sale processes to be unacceptable; and
- the ability for the PRA to direct an unregulated UK holding company to take particular action, or refrain from taking a particular action, and to censure or fine such company if it does not so comply.

Following the onset of the recent financial crisis, the FSA adopted a more intrusive and direct style of regulation which it termed "intensive supervision". This strategy, combined with an outcome-focused regulatory approach, more proactive approach to enforcement and more punitive approach to penalties for infringements meant that authorised firms faced increased supervisory intrusion and scrutiny (resulting in increased internal compliance costs and FSA supervision fees). This intensive approach to supervision has been continued by the PRA and FCA. In addition, there are risks and uncertainties as to how the FCA and PRA will interact with each other over the regulation of the same legal entities, particularly in relation to entities that have written With-Profits Business, where regulation is divided between the two regulators. It is also possible that the nature of, or policies for, prudential and conduct of business supervision as performed by the FCA and PRA could differ, over time, from the previous approach taken by the FSA, including the possibility of higher capital requirements and restrictions on certain types of transaction structures.

Retail Distribution Review

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

The key initiatives were:

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

The new rules were implemented from January 2013.

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

The RDR has affected the business models, and potentially therefore the profitability, of not only customer-facing distributor and adviser intermediary firms but also the insurance firms that provide underlying products which are distributed or recommended by those intermediary firms.

Conduct of Business Regulation

Conduct of Business; General regulation

The FCA's Conduct of Business Rules, set out in ICOBS and COBS, apply differing requirements to the sale of (i) general and pure protection insurance contracts and (ii) long-term insurance contracts that function as savings and investment vehicles, respectively. Authorised firms which advise and sell packaged products (such as life insurance policies) are subject to detailed conduct of business obligations relating to product disclosure, assessment of suitability for private customers, the range and scope of the advice which the firm provides, and fee and remuneration arrangements.

These conduct of business rules are supplemented by the FCA's principles for businesses, including the principle that firms should provide information to consumers which is clear, fair and not misleading and treat customers fairly (see below). The principles are actionable as rules by the FCA (and the PRA, in relation to some of the principles). In recent years, conduct of sales of insurance products have come under greater scrutiny from the FSA (and now, the FCA) resulting in an increase in the fines levied on firms by the

FSA/FCA and compensation orders made against firms from the Financial Ombudsman Service (the "**FOS**") for breaches of conduct of business rules and the principles. The prime example is the extensive regulatory review and subsequent fines levied and compensations orders made in relation to the sales of payment protection insurance products. More recently, the sale of certain credit card and identity protection products has been the subject of fines and a redress scheme involving an insurer and several banks.

In general, the FCA's Conduct of Business Rules govern the sale of new policies. However, they also include rules applicable in the course of administration of in-force policies by the Group relating to:

- information to be provided to existing policyholders;
- cancellation rights;
- the handling of claims;
- treating with profit policyholders fairly; and
- pensions transfers and the open market option,

which may apply regardless of whether or not the insurer is actively selling its products.

Conduct of Business; Treating customers fairly and with-profits

One of the operational objectives of the FCA, as established by the FSMA, is securing the appropriate degree of protection for consumers. Consequently, the fair treatment of customers is a key objective for the FCA and all authorised insurance companies are under a regulatory duty to pay due regard to the interests of their customers and treat them fairly. This duty exists alongside other, more specific, rules contained in the prudential regime and is increasingly being seen by the regulator and authorised insurance companies as governing all aspects of an insurance company's dealings with its customers. Except in relation to with-profits policyholders, the meaning of the duty has not been further defined beyond the ordinary English meaning of the word "fair" although the regulator has published examples of what in their view constitutes fair treatment in a series of case studies.

In relation to With-Profits Business, detailed rules to ensure with-profits policyholders are treated fairly are set out in COBS 20.2. The rules govern, among other things:

- the calculation of amounts payable to with-profits policyholders;
- distributions from the With-Profits Fund (including the "required percentage" of distributions which must be made to policyholders) and excess surplus;
- market value reductions to a with-profits policy;
- charges which may be made to With-Profits Funds;
- new business and material changes to the fund (the requirement to ensure new business or material changes are not detrimental to existing with-profits policyholders);
- investment strategy of fund assets; and
- the process for altering or clarifying the interests of policyholders and other interested parties in the surplus assets maintained in the fund (reattributions).

There is also the obligation to maintain written principles and practices of financial management for each With-Profits Fund which aim to ensure fairness to policyholders by setting out the firm's approach to managing the fund.

Rules were introduced from April 2012 which seek to establish more clarity regarding the participation of with-profits policyholders in surpluses arising within the fund (see "*Risk Factors — New rules regarding the protection of with-profits policyholders generally and guidance relating to the fair treatment of with-profits policyholders by mutual insurance companies may adversely impact the operations of the Group and increase its costs*"). A default position is established for both mutual and proprietary companies, being an interest of 90 per cent. of the total available for distribution. Firms are required to take reasonable care to ensure all aspects of operating practice are fair to the interests of with-profits policyholders and do not lead to an undisclosed, or otherwise unfair, benefit to shareholders or to other persons with an interest in the With-Profits Fund, including in the case of mutuals, the members of the mutual.

When accepting new business in a With-Profits Fund, such new business should have "no adverse effect" on with-profits policyholders' interests. Firms must provide appropriate analysis and evidence to support their conclusions. Guidance states, however, that new business is not automatically adverse and certain factors (such as new business being financially self-supporting) indicate that new business is not adverse, whilst others (such as business priced on loss making terms) indicate that the new business will be adverse.

Restrictions on strategic investments for with-profits firms require that the firm's governing body must be satisfied, so far as it reasonably can be, and can demonstrate, that the purchase or retention of strategic investments is likely to have "no adverse effect" on the interests of with-profits policyholders. Guidance to this rule requires analysis of, amongst other things, the relative size of the investment, rate of return, investment risks, costs of divestment and the view of the with-profits actuary. This could present challenges for an insurer where its With-Profits Fund holds a "strategic investment" which is connected in some way with the firm's business, e.g. an office building used by the firm, or stakes in businesses whose commercial interests are aligned with those of the firm's owners, such as investment management companies or general insurance subsidiaries and advisory businesses, and will increase the amount of scrutiny required to maintain and invest in such strategic investments. This may cause particular difficulties for mutuals such as the Guarantor which have no other funds in which those investments can be held.

Impact on Mutual Insurers, such as the Guarantor

COBS 20 applies to mutual with-profits insurers in the same way as it does to proprietary insurers.

In 2008, the FSA launched what was termed "Project Chrysalis" and, in this context, published "Dear CEO" letters in October 2009 and September 2010 which related to the fair treatment of with-profits policyholders in mutually-owned With-Profits Funds. Many mutual firms expressed concerns to the FSA that the proposed amendments to COBS 20 would cause particular difficulties for mutuals. The industry also questioned the reasoning applied by the FSA in Project Chrysalis in determining the interests of policyholders in the with profits fund.

In December 2012, the FSA published a consultation paper (CP12/38) entitled "*Mutuality and with-profits: a way forward*", which dealt with the issues faced by mutual insurers under the COBS 20 regime. A policy statement with final rules (if any) is expected in December 2013. The consultation proposed a more positive outcome for mutuals operating a single common fund, by: (i) recognising that mutuals limited by guarantee (such as the Guarantor) may use solvent schemes of arrangement, under the Companies Act 2006, to identify the separate interests of policyholders and members, and (ii) proposing a new process for mutuals to apply to the FCA for a rule modification limiting the application of COBS 20 to that part of the common fund in which policyholders have an interest.

It is not yet clear whether the modification option described above will be available to all mutuals, or only to those that are not organised as companies limited by guarantee (e.g. friendly societies and industrial and provident societies). Accordingly, it is not yet known whether the Guarantor would be able to or indeed wish to take advantage of the modification option suggested in the above consultation paper.

For mutuals seeking a rule modification, the proposals suggest a mutual will have to satisfy several tests in addition to the statutory requirements under the FSMA which include demonstrating the modification will not amount to a reattribution, will be fair to with-profits policyholders and consistent with their due benefits, will comply with the constitutional documents of the mutual and will not disadvantage policyholders compared to those of a proprietary (i.e. non-mutual) With-Profits Fund. The firm would also require the report of an independent expert and engagement with policyholders. In order to obtain any modification, consultation with the PRA will also be required and if a modification were granted the firm would be dependent on its continuing existence.

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

The Bank of England and HM Treasury

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

UK Financial Ombudsman Service

The FOS provides customers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from the regulated firm. The FOS resolves disputes for eligible persons that cover most financial products and services provided in (or from) the UK. The jurisdiction of the FOS extends to include firms conducting activities under the Consumer Credit Act. Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable; in this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on regulated firms.

The Financial Services Compensation Scheme

The FSCS was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. Companies within the Group are responsible for contributing to compensation schemes in respect of financial services firms that are unable to meet their obligations to customers. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on authorised firms, including companies within the Group.

UK Office of Fair Trading (the "OFT")

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

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

The ICO is responsible for overseeing implementation of the Data Protection Act 1998. This Act regulates, among other things, the retention and use of data relating to individual customers. The Freedom of Information Act 2000 (the "**FOIA**") sets out a scheme under which any person can obtain information held by, or on behalf of, a "public authority" without needing to justify the request. A public authority will not be required to disclose information if certain exemptions set out in the FOIA apply.

Overview of the EEA regulatory environment

At a European level, a number of new directives or changes to existing directives are planned to be introduced in the next 12 to 24 months and beyond, including those identified below in the section entitled "*Future developments*". The UK has implemented all of the directives introduced under the Financial Services Action Plan. However, these directives are regularly reviewed at EU level and could be subject to change. The Group will continue to monitor the progress of these initiatives, provide specialist input on their drafting and assess the likely impact on its business.

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

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

A new European supervisory framework for the financial system was established in January 2011. This involves a two-tier pan-European regulatory structure, comprising the European Systemic Risk Board (the "**ESRB**") and three European Supervisory Authorities ("**ESAs**") (see below).

The ESRB monitors and assesses macro-level risks to the European financial system as a whole and is intended to have the power to issue recommendations and warnings to Member States (including the national competent authorities) and to the ESAs. The ESRB is also charged with collecting and exchanging relevant information from and between the new ESAs and Member States (including national competent authorities) and with the identification and prioritisation of systemic risks.

The ESAs are the European Banking Authority, the European Insurance and Occupational Pensions Authority ("**EIOPA**"), and the European Securities and Markets Authority. These bodies replaced the three European Committees in these areas, which had advisory powers only, namely the Committee of European Banking Supervisors, the Committee of European Insurance and Occupational Pensions Supervisors and the Committee of European Securities Regulators. The ESAs have powers to set technical standards that are binding across Europe, and in certain circumstances to mediate between, or to intervene in the practices of, individual national regulatory authorities.

The creation of the ESAs is consistent with the general theme of much greater centralisation of supervisory powers within Europe and, in due course, the creation of a single European regulatory rulebooks.

Future developments

Solvency II Directive

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

disclosure (pillar III). It will cover valuation of assets and liabilities, the treatment of insurance groups, governance of insurers and insurance groups and the definition of capital and overall level of capital requirements.

Transposition of the Solvency II Framework Directive into UK law will require a combination of changes to legislation and changes to the PRA Handbook on which the PRA must consult. The FSA has previously consulted on some changes, mainly in CP11/22 (dated November 2011) and CP12/13 (dated July 2012). HM Treasury has also consulted on changes to secondary legislation.

The Solvency II Framework Directive is expected to be amended by the proposed Omnibus II Directive to reflect the Lisbon Treaty (in particular, the new role of EIOPA) and to make a number of other changes described below.

The Omnibus II Directive proposal has been under discussion for more than two years and remains in draft form. The primary reason for the on-going delay is political disagreement on the right approach to calculating solvency in respect of products which carry long-term guarantees. Annuities are affected by this issue and it is therefore very important for the UK market in particular including the Group. Other features of the proposals could be significant. Amendments to the Solvency II Framework Directive had been proposed by the European Parliament (via the Omnibus II Directive proposal) reflecting some of the EU's work on draft implementing measures, as below. Discussion of this issue reached a stalemate, and a decision was therefore taken to conduct an impact assessment of a package of measures proposed by the European Commission. This impact assessment (known as the "Long-Term Guarantee Assessment" or "**LTGA**") was launched at the end of January 2013 and EIOPA published the results, along with recommendations, in June 2013. EIOPA recommended the adoption of a "matching adjustment" in discounting long-term guaranteed insurance products back to their present value. In broad terms, this is intended to increase discount rates (and therefore reduce liability values) to off-set corresponding falls in the market value of associated fixed-interest assets as yields rise. In order to be eligible for the proposed adjustment, both the liabilities and the backing assets need to meet certain criteria in order to be eligible.

In the time that the Omnibus II discussions have been continuing, the Solvency II Framework Directive has been amended by two other directives, namely: (i) Directive 2011/89/EU, which amended the provisions relating to insurance groups in order to allow insurance group supervision to apply to mixed financial holding companies, within financial conglomerates; and (ii) Directive 2012/23/EU, which amended the original implementation date for Solvency II from 1 November 2012 to 1 January 2014 (with transposition into national law required by 30 June 2013). National transposition did not in fact occur on 30 June 2013, given that the Omnibus II Directive has not yet been passed and the detailed implementing measures have not been formally published. On 2 October 2013, the European Commission announced plans for a further directive to amend the Solvency II Framework Directive, which would require implementation by 1 January 2016 (with national transposition by 31 January 2015). There is on-going speculation about the final implementation date of Solvency II, but it now appears that the earliest likely implementation date is 1 January 2016, though a later date (or extensive grandfathering and other transitional relief) remains possible.

During 2010 and 2011, the European Commission began drafting detailed rules that will expand on the high-level principles of the Solvency II Framework Directive. These are referred to as "Level 2 implementing measures" (which will be known as "delegated acts" once the Omnibus II Directive has been adopted). Work on these rules is stalled pending finalisation of the Omnibus II Directive.

A key change in the Solvency II regime is the possibility in Pillar I of using an internally devised economic capital model to calculate regulatory capital requirements, with regulatory approval. This is discussed above under the heading "*The European Commission is currently in the process of introducing a new regime governing solvency margins, own funds, reserves and governance, the effect of which is uncertain"* in the

"Legal and Regulatory risks" section of this Prospectus entitled "Risk Factors". Another central aspect of the Solvency II regime is the Pillar II focus on firms' systems of governance and risk management, including a forward looking assessment of all risks – the Own Risk and Solvency Assessment ("**ORSA**"). The Solvency II regime requires firms to develop and embed an effective risk management system as a key part of running the firm; the FSA had previously been carrying out thematic reviews of risk management with major UK insurers as part of its ICAS solvency regime for some time. However further development and documentation in this area is still expected to be necessary.

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

Notwithstanding the above uncertainties, EIOPA has proposed issuing guidance to national supervisory authorities to encourage them (and their authorised firms) to transition to Solvency II prior to the formal implementation date. For firms, the key proposals are that they begin reporting to their local supervisors using Solvency II reporting templates in 2015 (based on 2014 data) and undertake forward-looking assessments – modelled on the ORSA concept – in 2014 and 2015.

Proposals around Packaged Retail Investment Products

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

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

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

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

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

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

Insurance Mediation Directive

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

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

It is expected that the European Parliament and the Council of the European Union are likely to adopt IMD2 during 2014. Work on subsequent technical measures to give effect to a number of IMD2 provisions would start soon after that. The new regime is most likely to enter into force in 2015 or 2016.

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

Insurance guarantee schemes

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

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

The Commission is expected to publish a legislative proposal for the IGSD in 2013 or 2014.

Other

Additionally, there are other recent regulatory developments which are of relevant to the Group, such as the ECJ's ruling in the *Test Achats v Council of Ministries (C-236/09)* and the AIFMD (See sections above entitled "*Risk Factors — The European Court of Justice ("ECJ") ruling in the "Test Achats" decision no*

longer allows EU member states to rely on a derogation in Articles 5(2) of the Gender Directive, to allow gender specific pricing of premiums, which may result in reduced levels of insurance business and adversely affect the profits of the Group” and “*Risk Factors — New rules relating to Alternative Investment Fund Managers may result in an increase in compliance cost and resulting adverse impacts for the Group.”,* respectively, for further details).

TAXATION

The following discussion is a general summary of the current taxation treatment of payments of interest on the Notes under tax law in the United Kingdom as applied in England and Wales. The discussion does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase the Notes. The discussion is based on the tax laws of the United Kingdom as applied in England and Wales and the published practice of HMRC (which may not be binding on HMRC) as in effect on the date of this Prospectus, which are subject to change, possibly with retroactive effect. The discussion does not consider any specific facts or circumstances that may apply to a particular Noteholder and applies only to persons who are absolute beneficial owners of their Notes and may not apply to certain classes of persons such as dealers, certain professional investors or persons connected with the Issuer or Guarantor, to whom special rules may apply. The discussion does not necessarily apply where the income is deemed for tax purposes to be the income of any other person. The discussion does not consider the UK tax treatment of payments in respect of interest on the Notes made by the Guarantor. It further assumes that there will be no substitution of the Issuer or Guarantor and does not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes). The UK tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be unsure as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

UK Taxation

Payments of interest on the Notes by the Issuer may be made without withholding or deduction for or on account of UK income tax provided that the Notes continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and are admitted to trading on the London Stock Exchange. Provided therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of UK tax.

Interest on the Notes may also be paid by the Issuer without withholding or deduction on account of UK tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that, broadly, the beneficial owner of such interest is within the charge to UK corporation tax as regards the payment of interest or falls within a list of specified tax exempt entities and bodies, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

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

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst

others, the holders of the Notes, persons by (or via) whom payments derived from the Notes are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

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

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

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

Noteholders should be aware that the provisions relating to additional payments referred to in Condition 10 of the terms and conditions of the Notes would not apply if HMRC sought to assess the person entitled to the relevant interest on any Notes directly to UK income tax.

EU Directive on the Taxation of Savings Income

The EU Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

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

U.S. Foreign Account Tax Compliance Withholding

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY PERSON FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION

OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE PURCHASERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

FATCA imposes a withholding tax of 30 per cent. on (i) certain U.S. source payments and (ii) payments of gross proceeds from the disposition of assets that produce U.S. source interest or dividends made to persons that fail to meet certain certification or reporting requirements. In order to avoid becoming subject to this withholding tax, non-U.S. financial institutions must enter into agreements with the IRS ("**IRS Agreements**") (as described below) or otherwise be exempt from the requirements of FATCA. Non-U.S. financial institutions that enter into IRS Agreements or become subject to provisions of local law ("**IGA legislation**") intended to implement an intergovernmental agreement entered into pursuant to FATCA ("**IGA**s"), may be required to identify "financial accounts" held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. In addition, in order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable IGA legislation, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding is required with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information, consents or documentation made on or after (i) 1 July 2014 in respect of certain US source payments, (ii) 1 January 2017, in respect of payments of gross proceeds (including principal repayments) on certain assets that produce US source interest or dividends and (iii) 1 January 2017 (at the earliest) in respect of "foreign passthru payments". However, any such FATCA withholding applies to "obligations" that are not treated as equity for U.S. federal income tax purposes, only if such obligations are issued or materially modified on or after the later of (a) 1 July 2014, and (b) in the case of an obligation that pays only foreign passthru payments, the date that is six months after the date on which the final regulations applicable to "foreign passthru payments" are filed in the Federal Register.

The application of FATCA to interest, principal or other amounts paid with respect to the Notes and the information reporting obligations of the Issuer and other entities in the payment chain is still developing. In particular, a number of jurisdictions (including the United Kingdom) have entered into, or have announced their intention to enter into, intergovernmental agreements (or similar mutual understandings) with the United States, which modify the way in which FATCA applies in their jurisdictions. The full impact of such agreements (and the laws implementing such agreements in such jurisdictions) on reporting and withholding responsibilities under FATCA is unclear. The Issuer and other entities in the payment chain may be required to report certain information on their U.S. account holders to government authorities in their respective jurisdictions or the United States in order (i) to obtain an exemption from FATCA withholding on payments they receive and/or (ii) to comply with applicable law in their jurisdiction. It is not yet certain how the United States and the jurisdictions which enter into intergovernmental agreements will address withholding on "foreign passthru payments" (which may include payments on the Notes) or if such withholding will be required at all.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, the Guarantor, any paying agent and the common depositary given that each of the entities in the payment chain from (but excluding) the

Issuer to (but including) the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA-compliant holder could be subject to withholding. However, definitive Notes will only be printed in remote circumstances.

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

SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc and Merrill Lynch International (the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated 27 November 2013 (the "**Subscription Agreement**"), jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe and pay for the Notes at 99.316 per cent. of the principal amount of the Notes and will receive certain commissions as agreed with the Issuer. The Issuer (failing which, the Guarantor) has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes.

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

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented and agreed that it has not offered and sold the Notes, and agrees that it will not offer or sell any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes and the Guarantee.

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

United Kingdom

Each Joint Lead Manager has represented and agreed that:

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

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

General

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

None of the Issuer, the Guarantor, the Joint Lead Managers or the Trustee represents that any action will be taken in any jurisdiction by the Joint Lead Managers or the Issuer or the Guarantor that would permit a public offering of the Notes, or possession or distribution of this Prospectus or any offering materials, in any country or jurisdiction where action for that purpose is required.

Joint Lead Managers' business relationships with the Group

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

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

GENERAL INFORMATION

1. It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on 2 December 2013, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in the UK in connection with the issue and performance of the Notes and the Guarantee relating to the Notes. The issue of the Notes was authorised by a meeting of the Board of Directors of the Issuer held on 12 November 2013. The giving of the Guarantee in respect of the Notes was authorised by a meeting of the Board of Directors of the Guarantor held on 9 October 2013 and a sub-committee of the Board of Directors of the Guarantor held on 12 November 2013.

3. There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer since 6 November 2013, being its date of incorporation.

4. Save as disclosed on pages 88 and 89 of this Prospectus with respect to the acquisition of RLCIS and RLAM (CIS) by the Guarantor, there has been no significant change in the financial or trading position of the Guarantor or of the Group since 30 June 2013. There has been no material adverse change in the financial position or prospects of the Guarantor or of the Group since 31 December 2012.

5. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) arising during the 12 months preceding the date of this Prospectus which may have or have had in the recent past, significant effects on the financial position or profitability of the Issuer, the Guarantor and/or the Group.

6. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 099813571. The International Securities Identification Number (ISIN) for the Notes is XS0998135718.

   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.

7. The initial yield on the Notes to the first interest reset on the First Call Date will be 6.219 per cent. per annum calculated on an annual basis. The yield is calculated on the Issue Date on the basis of the issue price of the Notes. It is not an indication of future yield.

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

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

10. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any

weekday (Saturdays, Sundays and public holidays excepted), for inspection at the registered office of the Guarantor:

(i) the Trust Deed (which includes the form of the Global Certificate and the Certificates) and the Agency Agreement;

(ii) the articles of association of each of the Issuer and the Guarantor;

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

(iv) the unaudited consolidated interim financial accounts of the Guarantor for the six months ended 30 June 2013; and

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

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at *http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*.

11. PricewaterhouseCoopers LLP of 1 Embankment Place, London WC2N 6RH (Chartered Accountants and Statutory Auditors) and a member of the Institute of Chartered Accountants in England and Wales has audited, and rendered unqualified audit reports on, the financial statements of the Guarantor for the two years ended 31 December 2011 and 31 December 2012.

DEFINITIONS

The following definitions apply throughout this Prospectus unless the context otherwise admits, save that capitalised terms used in the section of this Prospectus headed "*Terms and Conditions of the Notes*" have the meanings given therein.

"**Authorities**"	means, collectively, HM Treasury, the Bank of England (including the PRA) and the Financial Conduct Authority.
"**COBS**"	means the conduct of business sourcebook.
"**CBG**"	means The Co-operative Banking Group Limited.
"**Clearstream, Luxembourg**"	means Clearstream Banking, *société anonyme*.
"**Condition**"	means, in respect of a numbered Condition, the relevant condition of the Notes set out under the "*Terms and Conditions of the Notes*".
"**Consolidated Life Directive**"	means the Directive concerning life assurance (2002/83/EC).
"**Disclosure and Transparency Rules**"	means the Disclosure and Transparency Rules as published under the FCA Handbook.
"**EEA**"	means the European Economic Area.
"**EIOPA**"	means the European Insurance and Occupational Pensions Authority.
"**EU**"	means the member states of the European Union.
"**Euroclear**"	means Euroclear Bank SA/NV.
"**FATCA**"	means sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and US Treasury regulations promulgated thereunder.
"**FCA**"	means the Financial Conduct Authority (or any successor authority).
"**FCA Handbook**"	means the book of rules and guidance maintained by the FCA.
"**FSA**" or "**Financial Services Authority**"	means the Financial Services Authority prior to 1 April 2013.
"**FSA Handbook**"	means the book of rules and guidance, including as to regulatory capital requirements, maintained by the FSA up to 31 March 2013.
"**FSCS**"	means UK Financial Services Compensation Scheme.
"**FSMA**"	means the Financial Services and Markets Act 2000.
"**Gender Directive**"	means Council Directive 2004/113/EC.
"**Group**"	means the Issuer, Guarantor and its consolidated subsidiaries.
"**Guarantor**"	means The Royal London Mutual Insurance Society Limited.
"**HMRC**"	means HM Revenue and Customs.
"**HM Treasury**"	means Her Majesty's Treasury.
"**IAS**"	means International Accounting Standard.

"**ICAS**"	means Individual Capital Adequacy Standards.
"**ICOBS**"	means the insurance conduct of business sourcebook.
"**IFRS**"	means International Financial Reporting Standards as adopted for use in the EU.
"**IMD**"	means the Insurance Mediation Directive (Directive 2002/92/EC).
"**IMD2**"	means the proposed amendments to the IMD regime via the Insurance Mediation Directive 2 published by the European Commission on 9 July 2012.
"**INSPRU**"	means the "Prudential Sourcebook for Insurers", which forms part of the PRA Handbook.
"**Insurance Groups Directive**"	means the Directive on the Supplementary Supervision of Insurance Companies in an Insurance Group (1998/78/EC).
"**Issuer**"	means RL Finance Bonds No. 2 plc.
"**IT**"	means information technology.
"**Joint Lead Managers**"	means Barclays Bank PLC, HSBC Bank plc and Merrill Lynch International.
"**Listing Rules**"	means the Listing Rules under the FCA Handbook.
"**London Stock Exchange**"	means the London Stock Exchange plc.
"**Long-Term Fund**"	means a long term insurance fund as defined by INSPRU 1.2.22, which is a fund where assets are separately identified and maintained to cover the liabilities arising from the long-term insurance contracts written within the fund.
"**Market**"	means the London Stock Exchange's Regulated Market.
"**Member State**"	means a member state of European Economic Area.
"**MiFID**"	means the Markets in Financial Instruments Directive.
"**Moody's**"	means Moody's Investors Service Limited or, where the context requires, another ratings provider within the Moody's group.
"**Non-Life Directives**"	means the Directives on: (a) the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance (the "First Non-Life Directive", 73/239/EEC); (b) the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and laying down provisions to facilitate the effective exercise of freedom to provide services (the "Second Non-Life Directive", 88/357/EEC); (c) on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance (the "Third Non-Life Directive", 92/49/EEC), and other Directives amending or

supplementing the above.

"**Official List**"	means the Official List of the UK Listing Authority.
"**OFT**"	means the Office of Fair Trading.
"**Pillar I**"	means: (a) in relation to the current PRA Handbook, the capital resources requirement imposed on insurers pursuant to Chapters 1-5 of INSPRU; and (b) in relation to Solvency II, the requirements concerning technical provisions, the solvency capital requirement, the minimum capital requirement, the selection and valuation of assets and the forms of eligible capital.
"**Pillar II**"	means: (a) in relation to the current PRA Handbook, the ICAS rules; and (b) in relation to Solvency II, the requirements concerning supervisory reporting and the own risk and solvency assessment.
"**PPFM**"	means each set of Principles and Practices of Financial Management of the Guarantor as applicable in the context setting out how the Guarantor conducts its With-Profits Business in relation to specified groups of its with-profits policyholders, as amended and updated from time to time;
"**PRA**"	means the Prudential Regulation Authority (or any successor authority).
"**PRA Handbook**"	means the book of rules and guidance, including as to regulatory capital requirements, maintained by the PRA.
"**PRIPs**"	means packaged retail investment products.
"**PVIF**"	means present value of in-force business.
"**PVNBP**"	means present value of new business premiums.
"**Prospectus**"	means this Prospectus dated 27 November 2013.
"**Prospectus Directive**"	means Directive 2003/71/EC.
"**Prospectus Rules**"	means the Prospectus Rules under the FCA Handbook.
"**RDR**"	means the retail distribution review conducted by the UK Treasury Select Committee.
"**Reinsurance Directive**"	means the Directive concerning reinsurance (2005/68/EC).
"**Regulation S**"	means Regulation S under the Securities Act.
"**RLAM (CIS)**"	means Royal London Asset Management (CIS) Limited (previously known as the Co-operative Asset Management Limited).
"**RLCIS**"	means Royal London (CIS) Limited (previously known as the Co-operative Insurance Society Limited).
"**Royal London Open Fund**"	means the main With-Profits Fund of the Guarantor.

"**Securities Act**"	means the United States Securities Act of 1933, as amended.
"**Solvency II**"	means the Solvency II Framework Directive and implementation measures in respect thereof, establishing a new regime in relation to solvency requirements and other matters affecting the financial strength of insurers and reinsurers in the EU.
"**Solvency II Framework Directive**"	means the Directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) (2009/138/EC).
"**S&P**"	means Standard & Poor's Credit Market Services Europe Limited or, where the context requires, another ratings provider within the Standard & Poor's group.
"**United Kingdom**" or "**UK**"	the United Kingdom of Great Britain and Northern Ireland.
"**Winding-Up Directive**"	means the Directive on the reorganisation and winding-up of insurance undertakings (2001/17/EC).
"**With-Profits Business**"	means the business of an insurer (such as the Guarantor) that may affect the amount or value of the assets comprising a With-Profits Fund.
"**With-Profits Fund**"	means a separate long-term insurance fund, maintained within the Long-Term Fund, where with-profits policyholders are eligible to share in any surpluses arising.

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